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MAY 01 2014

CONTINUING CARE  
CONTRACTS BRANCH

2013 ANNUAL REPORT  
SUNRISE CARLISLE, LP

**FORM 1-1**  
**RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	108
[2]	Number at end of fiscal year	106
[3]	Total Lines 1 and 2	214
[4]	Multiply line 3 by ".50" and enter result on line 5	0.5
[5]	Mean number of continuing care residents	<b>107</b>
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	108
[7]	Number at end of fiscal year	106
[8]	Total Lines 6 and 7	214
[9]	Multiply line 8 by ".50" and enter result on line 10	0.5
[10]	Mean number of <i>all</i> residents	<b>107</b>
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	<b>1.00</b>

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest or	\$ 5,372,273
[a]	Depreciation	\$ 21,735
[b]	Debt Service (Interest only)	\$ -
[2]	Subtotal (add Line 1a and 1b)	\$ 21,735
[3]	Subtract Line 2 from Line 1 and enter result	\$ 5,350,538
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	1.00
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$ 5,350,538
		x .001
[6]	<b>Total Amount Due</b>	<b>\$ 5,350.54</b>

**PROVIDER:** Sunrise Carlisle LP

**COMMUNITY:** The Carlisle



RECEIVED  
MAY 01 2014

CONTINUING CARE  
CONTRACTS BRANCH

April 30, 2014

California Department of Social Services  
Continuing Care Contracts Branch  
744 P Street, MS 10-90  
Sacramento, CA 95814  
ATTN: Allison Nakatomi

Dear Ms. Nakatomi:

This letter will serve as a certification on behalf of Sunrise Carlisle LP to the California Department of Social Services for the following matters regarding the enclosed annual report for 2013 that Sunrise Carlisle LP is submitting as the holder of a certificate of authority for The Carlisle:

1. The annual report and any amendments to it are correct to the best of my knowledge.
2. Each continuing care contract form in use or offered to new residents at The Carlisle has been approved by the Department.
3. Sunrise Carlisle LP does not maintain cash or cash equivalents. Sunrise Senior Living, Inc., in its role as co-holder of the certificate of authority at The Carlisle, is responsible for meeting the liquid reserve requirements in the California continuing care statute on behalf of Sunrise Carlisle LP. Therefore, Form 5-5 lists under "Operating Reserve" the amount of cash and cash equivalents maintained by Sunrise Senior Living Inc., as set forth in Sunrise Senior Living, Inc.'s audited financial statement for 2013. A copy of the relevant portions of that statement is included with Form 5-5. See Form 5-5 and footnotes 1 and 6 to the 2013 audited financial statement of Sunrise Carlisle LP regarding the assumption by Sunrise Senior Living, LLC in 2014 of Sunrise Senior Living, Inc.'s responsibilities as co-holder of the certificate of authority at The Carlisle.

Please feel free to contact us if you have any questions about our submissions.

Sincerely,

Chris Winkle  
Chief Executive Officer, Sunrise Senior Living, LLC

**Community Support Office**

7900 Westpark Drive, Suite T-900, McLean, Virginia 22102

Main: (703) 273-7500

[www.sunriseseniorliving.com](http://www.sunriseseniorliving.com)



# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

4/30/2013 5/2/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Lockton Companies, LLC Denver  
8110 E Union Avenue  
Suite 700  
Denver CO 80237  
(303) 414-6000

## CONTACT

NAME:

PHONE

FAX

(A/C, No, Ext):

(A/C, No):

E-MAIL

ADDRESS:

## INSURER(S) AFFORDING COVERAGE

NAIC #

INSURER A : National Union Fire Ins Co Pittsburgh PA

19445

INSURER B :

INSURER C :

INSURER D :

INSURER E :

INSURER F :

INSURED  
1322828 Sunrise Senior Living, LLC  
7900 Westpark Drive  
T-900  
McLean, VA 22102

COVERAGES SUNSE02

CERTIFICATE NUMBER:

10809309

REVISION NUMBER:

XXXXXXXX

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	GENERAL LIABILITY			NOT APPLICABLE			EACH OCCURRENCE \$ XXXXXXXX
	COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence) \$ XXXXXXXX
	CLAIMS-MADE <input type="checkbox"/> OCCUR <input type="checkbox"/>						MED EXP (Any one person) \$ XXXXXXXX
	GEN'L AGGREGATE LIMIT APPLIES PER:						PERSONAL & ADV INJURY \$ XXXXXXXX
	<input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC						GENERAL AGGREGATE \$ XXXXXXXX
	AUTOMOBILE LIABILITY			NOT APPLICABLE			PRODUCTS - COMP/OP AGG \$ XXXXXXXX
	ANY AUTO						
	ALL OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident) \$ XXXXXXXX
	HIRED AUTOS						BODILY INJURY (Per person) \$ XXXXXXXX
	SCHEDULED AUTOS						BODILY INJURY (Per accident) \$ XXXXXXXX
	NON-OWNED AUTOS						PROPERTY DAMAGE (Per accident) \$ XXXXXXXX
	UMBRELLA LIAB			NOT APPLICABLE			
	EXCESS LIAB						EACH OCCURRENCE \$ XXXXXXXX
	DED <input type="checkbox"/> RETENTION \$						AGGREGATE \$ XXXXXXXX
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY			NOT APPLICABLE			
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory In NH)						WC STATU-TORY LIMITS <input type="checkbox"/> OTH-ER <input type="checkbox"/>
	If yes, describe under DESCRIPTION OF OPERATIONS below						E.L. EACH ACCIDENT \$ XXXXXXXX
A	Commercial Crime*	N	N	018244240	4/30/2012	4/30/2013	Limit \$5,000,000
A	Empl. Practices Liab.			018251549	4/30/2012	4/30/2013	Limit \$10,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

\*For non-owned locations; client property has a sublimit of \$500,000 with a \$25,000 deductible. RE: The Carlisle; 1450 Post Street; San Francisco, CA 94109; The Stratford; 601 Laurel Avenue; San Mateo, CA 94401; Fountains at Carlotta; 41-505 Carlotta Drive; Palm Desert, CA 92211

## CERTIFICATE HOLDER

## CANCELLATION

10809309

State of California  
Dept. of Social Services  
CA

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE



# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
04/29/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

<b>PRODUCER</b> Aon Risk Services Central, Inc. Philadelphia PA Office One Liberty Place 1650 Market Street Suite 1000 Philadelphia PA 19103 USA	<b>CONTACT NAME:</b>	
	<b>PHONE (A/C, No, Ext):</b> (866) 283-7122	<b>FAX (A/C, No.):</b> (800) 363-0105
<b>INSURED</b> Sunrise Senior Living, LLC 7900 Westpark Drive McLean, VA 22102-4217 USA	<b>E-MAIL ADDRESS:</b>	
	<b>INSURER(S) AFFORDING COVERAGE</b>	
	<b>NAIC #</b>	
	<b>INSURER A:</b> National Union Fire Ins Co of Pittsburgh 19445	
	<b>INSURER B:</b>	
	<b>INSURER C:</b>	
<b>INSURER D:</b>		
<b>INSURER E:</b>		
<b>INSURER F:</b>		

**COVERAGES** **CERTIFICATE NUMBER:** 570053603572 **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS. **Limits shown are as requested**

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	<b>COMMERCIAL GENERAL LIABILITY</b> <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR  GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC OTHER:						EACH OCCURRENCE DAMAGE TO RENTED PREMISES (Ea occurrence) MED EXP (Any one person) PERSONAL & ADV INJURY GENERAL AGGREGATE PRODUCTS - COM/OP AGG
	<b>AUTOMOBILE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> NON-OWNED AUTOS						COMBINED SINGLE LIMIT (Ea accident) BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE (Per accident)
	<b>UMBRELLA LIAB</b> <input type="checkbox"/> OCCUR <b>EXCESS LIAB</b> <input type="checkbox"/> CLAIMS-MADE <b>DED</b> <input type="checkbox"/> RETENTION						EACH OCCURRENCE AGGREGATE
	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b> ANY PROPRIETOR / PARTNER / EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below Y/N <input type="checkbox"/> N/A						PER STATUTE <input type="checkbox"/> OTH-ER <input type="checkbox"/> E.L. EACH ACCIDENT E.L. DISEASE-EA EMPLOYEE E.L. DISEASE-POLICY LIMIT
A	EPL - Primary			021446663	04/30/2013	04/30/2014	Policy Limit \$10,000,000 Deductible \$250,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

Re: The Carlisle; 1450 Post Street, San Francisco, CA 94109; The Stratford; 601 Laurel Avenue, San Mateo, CA 94401; Fountains at Carlotta; 41-505 Carlotta Drive; Palm Desert, CA 92211

<b>CERTIFICATE HOLDER</b>	<b>CANCELLATION</b>
State of California Dept. of Social Services 6167 Bristol Pkwy, Suite 400 Culver City CA 90230 USA	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.  AUTHORIZED REPRESENTATIVE  <i>Aon Risk Services Central, Inc.</i>



# CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)  
04/29/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

If this certificate is being prepared for a party who has an insurable interest in the property, do not use this form. Use ACORD 27 or ACORD 28.

<b>PRODUCER</b> Aon Risk Services Central, Inc. Philadelphia PA Office One Liberty Place 1650 Market Street Suite 1000 Philadelphia PA 19103 USA	<b>CONTACT NAME:</b>		<b>CONTINUING CARE CONTRACTS BRANCH</b>		
	<b>PHONE (A/C. No. Ext):</b> (866) 283-7122	<b>FAX (A/C. No.):</b> (800) 363-0105			
<b>INSURED</b> Sunrise Senior Living, LLC 7900 Westpark Drive McLean VA 22102-4217 USA	<b>E-MAIL ADDRESS:</b>		<b>INSURER(S) AFFORDING COVERAGE</b>	<b>NAIC #</b>	
	<b>PRODUCER CUSTOMER ID #:</b> 570000060194			INSURER A: National Union Fire Ins Co of Pittsburgh	19445
				INSURER B:	
				INSURER C:	
				INSURER D:	
				INSURER E:	
		INSURER F:			

**COVERAGES****CERTIFICATE NUMBER:** 570053603413**REVISION NUMBER:**

LOCATION OF PREMISES/ DESCRIPTION OF PROPERTY (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Re: The Carlisle; 1450 Post Street, San Francisco, CA 94109; The Stratford; 601 Laurel Avenue, San Mateo, CA 94401; Fountains at Carlotta; 41-505 Carlotta Drive; Palm Desert, CA 92211

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE		POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YYYY)	POLICY EXPIRATION DATE (MM/DD/YYYY)	COVERED PROPERTY	LIMITS
	<input type="checkbox"/>	PROPERTY				BUILDING	
	<input type="checkbox"/>	CAUSES OF LOSS				PERSONAL PROPERTY	
	<input type="checkbox"/>	DEDUCTIBLES				BUSINESS INCOME w/o Extra Expense	
	<input type="checkbox"/>	BASIC				EXTRA EXPENSE	
	<input type="checkbox"/>	BROAD				RENTAL VALUE	
	<input type="checkbox"/>	SPECIAL				BLANKET BUILDING	
	<input type="checkbox"/>	EARTHQUAKE				BLANKET PERS PROP	
	<input type="checkbox"/>	WIND				BLANKET BLDG & PP	
	<input type="checkbox"/>	FLOOD					
	<input type="checkbox"/>						
	<input type="checkbox"/>	INLAND MARINE	TYPE OF POLICY				
	<input type="checkbox"/>	CAUSES OF LOSS	POLICY NUMBER				
	<input type="checkbox"/>	NAMED PERILS					
A	X	CRIME	021446663	04/30/2013	04/30/2014	X Employee Dishonesty	\$5,000,000
		TYPE OF POLICY Crime - Primary				X Deductible	\$100,000
	<input type="checkbox"/>	BOILER & MACHINERY / EQUIPMENT BREAKDOWN					

SPECIAL CONDITIONS / OTHER COVERAGES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

**CERTIFICATE HOLDER****CANCELLATION**

State of California  
Dept. of Social Services  
6167 Bristol Pkwy, Suite 400  
Culver City CA 90230 USA

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

*Aon Risk Services Central, Inc.*

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Holder Identifier :

CERTIFICATE NUMBER: 570053603413

RECEIVED  
MAY 01 2014

CONTINUING CARE  
CONTRACTS BRANCH

## FINANCIAL STATEMENTS

Sunrise Carlisle, LP  
Years Ended December 31, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

# SUNRISE CARLISLE, LP

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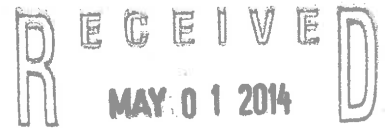
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Ernst & Young LLP  
Westpark Corporate Center  
8484 Westpark Drive  
McLean, VA 22102

Tel: +1 703 747 1000  
Fax: +1 703 747 0100  
ey.com



CONTINUING CARE  
CONTRACTS BRANCH

## Report of Independent Auditors

To the Partners of  
Sunrise Carlisle, LP

We have audited the accompanying financial statements of Sunrise Carlisle, LP (the "Partnership"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, changes in partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunrise Carlisle, LP at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

April 18, 2014

# SUNRISE CARLISLE, LP

## BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 319	\$ 252
Accounts receivable, Net of allowance for doubtful accounts of \$54 and \$0 for 2013 and 2012, respectively	23,937	25,037
Prepaid expenses and other assets	<u>23,178</u>	<u>15,853</u>
Total current assets	47,434	41,142
UTILITY DEPOSIT	36,200	36,200
<b>PROPERTY AND EQUIPMENT:</b>		
Condominium units	389,055	389,055
Furniture, fixtures, and equipment	<u>117,299</u>	<u>109,764</u>
Total property and equipment	506,354	498,819
Less accumulated depreciation	<u>(165,943)</u>	<u>(149,059)</u>
Property and equipment, net	340,411	349,760
MANAGEMENT RIGHTS INTANGIBLE, Net of accumulated amortization of \$1,438,578 and \$1,244,612 for 2013 and 2012, respectively	<u>4,380,388</u>	<u>4,574,354</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,804,433</u>	<u>\$ 5,001,456</u>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 333,122	\$ 371,230
Deferred revenue	180,883	172,406
Investments accounted for under the profit-sharing method of accounting	<u>-</u>	<u>33,361</u>
Total current liabilities	<u>514,005</u>	<u>576,997</u>
<b>TOTAL LIABILITIES</b>	514,005	576,997
<b>PARTNERS' CAPITAL</b>	<u>4,290,428</u>	<u>4,424,459</u>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<u>\$ 4,804,433</u>	<u>\$ 5,001,456</u>

See notes to financial statements.

**SUNRISE CARLISLE, LP**

**STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

---

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Resident revenue	\$ 4,941,949	\$ 4,626,215
Other revenue	<u>222,590</u>	<u>305,295</u>
Total operating revenue	5,164,539	4,931,510
OPERATING EXPENSES:		
Labor	3,248,258	3,009,390
General and administrative	601,327	629,287
Food	429,497	426,973
Management fees to affiliate	309,711	295,891
Utilities	256,284	248,147
Depreciation and amortization	215,701	212,612
Advertising and marketing	122,456	142,418
Repairs and maintenance	87,056	91,103
Insurance	86,736	115,845
Taxes and licenses	26,387	37,194
Ancillary expenses	22,167	12,494
Bad debt expense (recovery)	54	(31)
Impairment (gain on sale)	<u>(33,361)</u>	<u>30,566</u>
Total operating expenses	<u>5,372,273</u>	<u>5,251,889</u>
NET LOSS	<u>\$ (207,734)</u>	<u>\$ (320,379)</u>

See notes to financial statements.

## SUNRISE CARLISLE, LP

### STATEMENTS OF CHANGES IN PARTNERS' CAPITAL FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

---

PARTNERS' CAPITAL — December 31, 2011	\$ 5,792,719
Net loss	(320,379)
Distributions, net	<u>(1,047,881)</u>
PARTNERS' CAPITAL — December 31, 2012	4,424,459
Net loss	(207,734)
Contributions, net	<u>73,703</u>
PARTNERS' CAPITAL — December 31, 2013	<u>\$ 4,290,428</u>

See notes to financial statements.

**SUNRISE CARLISLE, LP**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (207,734)	\$ (320,379)
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities:		
Provisions for (recoveries of) bad debt	54	(31)
Depreciation and amortization	215,701	212,612
Impairment loss (gain on sale)	(33,361)	30,566
Changes in operating assets and liabilities:		
Accounts receivable	1,046	38,370
Prepaid expenses	(7,325)	(12,140)
Accounts payable and accrued expenses	(38,108)	39,403
Deferred revenue	8,477	44,592
Net cash (used in) provided by operating activities	<u>(61,250)</u>	<u>32,993</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of condominiums	-	1,003,674
Purchases of property and equipment, net of discounts received	<u>(12,386)</u>	<u>11,046</u>
Net cash (used in) provided by investing activities	<u>(12,386)</u>	<u>1,014,720</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Distributions, net to partners	-	(1,047,881)
Contributions, net from partners	<u>73,703</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>73,703</u>	<u>(1,047,881)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>67</b>	<b>(168)</b>
<b>CASH AND CASH EQUIVALENTS — Beginning of year</b>	<b><u>252</u></b>	<b><u>420</u></b>
<b>CASH AND CASH EQUIVALENTS — End of year</b>	<b><u>\$ 319</u></b>	<b><u>\$ 252</u></b>
<b>DISCLOSURE FOR NON CASH ITEM:</b>		
Investments accounted for under the profit-sharing method of accounting	<u>\$ 33,361</u>	<u>\$ -</u>

See notes to financial statements.

## SUNRISE CARLISLE, LP

### NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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#### 1. ORGANIZATION

**Organization** — On August 1, 2006, Sunrise Carlisle, LP (the “Partnership”), a Delaware limited partnership, acquired all easements and rights for The Carlisle and title to ten of the building’s 102 condominium units from Raiser Resources, LLC. Sunrise Senior Living Investments, Inc. (“SSLII”) held a 99% interest in the Partnership. Sunrise Carlisle GP, LLC, a wholly owned subsidiary of SSLII, held a 1% interest in the Partnership. SSLII funded the Partnership through its capital account as needed.

The Carlisle filed a declaration as a condominium and a continuing care retirement community (“CCRC”) in San Francisco City and County, California on August 28, 1992. As a condition of ownership, each owner of a condominium is required to enter into a residence and care agreement with St. Mary’s Community Care Corporation, St Mary’s Hospital and Medical Center and Catholic Healthcare West (collectively “St. Mary’s”). In 1998, the interests held by St. Mary’s were transferred to Raiser Senior Services, LLC, an affiliate of Raiser Resources, LLC and were subsequently transferred to the Partnership. The Partnership manages The Carlisle and markets vacant units on behalf of the owners. The Partnership is entitled to transfer fees on the sale of a condominium unit in accordance with the CCRC agreements.

On January 9, 2013, Healthcare REIT, Inc. (“HCN”) acquired Sunrise Senior Living, Inc. (“SSLI”). In conjunction with the transaction, Red Fox Management, LP (“Red Fox”), a new entity formed by affiliates of Kohlberg Kravis Roberts & Co. L.P., Beecken Petty O’Keefe & Company and Coastwood Senior Housing Partners LLC, entered into a Membership Interest Purchase Agreement with SSLI to acquire SSLI’s management business which includes Sunrise Senior Living Management, Inc. (“SSLMI”) and SSLII’s equity interests in the Partnership. The Partnership has a management agreement with SSLMI to manage the facility (Note 4). Sunrise Senior Living, LLC (“Sunrise”) is the successor entity to SSLI. Sunrise indirectly owns 100% of the Partnership and funds the Partner through its capital account as needed.

On December 20, 2013, Red Fox entered into a Unit Purchase and Merger Agreement with HCN for HCN and a capital partner to acquire the remaining equity interests of Kohlberg Kravis Roberts & Co. L.P., Beecken Petty O’Keefe & Company and Coastwood Senior Housing Partners LLC in Red Fox. HCN subsequently announced it was partnering with Revera, Inc. (“Revera”) a leading Canadian provider of senior living services, to complete the transaction. The transaction is expected to close in the second quarter of 2014, subject to regulatory approvals.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The Partnership’s financial statements are prepared in accordance with U.S. generally accepted accounting principles. The Partnership reviewed subsequent events through April 18, 2014, the date the financial statements were issued, for inclusion in these financial statements.

**Use of Estimates** — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant

estimates and assumptions have been made with respect to the useful lives of assets, recoverability of condominiums in inventory, recoverability of management rights, recoverability of property and equipment, recoverable amounts of receivables, amortization rate of deferred revenue, and present value of estimated costs to be incurred under continuing care agreements. Actual results could differ from those estimates.

**Cash and Cash Equivalents** — The Partnership only had a petty cash account in 2013 and 2012 and cash transactions were generally processed by Sunrise. The contributions from partners of \$73,703 in 2013 and the distributions to partners of \$1,047,881 in 2012 represent the net cash generated by the Partnership and retained by Sunrise or the net cash paid on behalf of the Partnership by Sunrise.

**Allowance for Doubtful Accounts** — The Partnership provides an allowance for doubtful accounts on its outstanding receivables balance based on its collection history and an estimate of uncollectible accounts.

**Property and Equipment** — Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Condominium units	30 years
Furniture, fixtures, and equipment	3-10 years

Property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Impairment is recognized when the asset's undiscounted expected cash flows are not sufficient to recover its carrying amount. The Partnership measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. No impairment charges were recorded in 2013 or 2012.

**Management Rights**— The Partnership acquired all easements and rights for The Carlisle as a part of the acquisition from Raiser Resources, LLC. The rights included the right to manage The Carlisle for a management fee and the right to transfer fees including a commission of a percentage of the sale price on each condominium unit sold by an owner plus a percentage of the appreciation in price. Management rights were recorded at fair value at acquisition and are being amortized using the straight-line method over the estimated useful life of 30 years. Amortization expense was \$193,966 for each year ended December 31, 2013 and 2012. Amortization expense will be \$193,966 per year until the management rights are fully amortized.

Management rights are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Impairment is recognized when the asset's undiscounted expected cash flows are not sufficient to recover its carrying amount. The Partnership measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. No impairment charges were recorded in 2013 or 2012.

**Revenue Recognition and Deferred Revenue** — Operating revenue consists of resident fee revenue. Generally, resident fee revenue is recognized when services are rendered. The Partnership bills the residents one month in advance of the services being rendered, and therefore, cash payments received for services are recorded as deferred revenue until the services are rendered and the revenue is earned.

Upon sale of a condominium by an owner, the Partnership receives a commission of 7% of the sale price plus a percentage of the appreciation in price of the condominium. These fees are recognized when received.

Healthcare revenue is recognized as basic assisted living and activities of daily living services are provided.

**Condominium Sales by the Partnership** — The Partnership owns condominium units that are held for sale. The sales contracts stipulate that there is a 90-day right of rescission on purchased units (“rescission period”) where from the date that the resident occupies the purchased unit, there is a period of 90 days, during which either the Partnership or the resident can cancel the Care Agreement, with or without cause. The cancellation of the Care Agreement will automatically cause the cancellation of the purchase agreement of the condominium unit as well. The Partnership will repurchase the condominium unit and refund all amounts paid by the resident, except the processing fee and a portion of the monthly fee representing services provided during the resident’s stay. Accordingly, units sold are accounted for under the profit sharing method and gain is not recognized until the expiration of the 90-day period.

**Income Taxes** — No provision has been made for federal or state income taxes, since the liability for such taxes, if any, is that of the partners and not the Partnership. The Partnership is subject to franchise taxes in California. These taxes are expensed as incurred and are included in taxes and licenses in the accompanying statements of operations.

ASC 740-10-25, Income Taxes, Overall Recognition describes a comprehensive model for the measurement, recognition, presentation and disclosure of uncertain tax positions in the financial statements. Under the interpretation, the financial statements will reflect expected future tax consequences of such positions presuming the tax authorities have full knowledge of the position and all relevant facts, but without considering time values. The Partnership has no uncertain tax positions that require accrual at December 31, 2013 and 2012.

The statute of limitations for the State of California to perform audits on the Partnership are four years. The Partnership is currently not under an audit by any tax jurisdiction. Tax years December 31, 2009 through January 9, 2013 are open and subject to California state audit.

**Fair Value Measurement** — Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC Fair Value Measurements Topic establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described below:

*Level 1* — Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

*Level 2* — Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

*Level 3* — Unobservable inputs are used when little or no market data is available.

### **3. CONDOMINIUMS IN INVENTORY**

The Partnership acquired ten condominium units from Raiser Resources, LLC in 2006. In July 2007, the Partnership purchased an additional 37 units. These 47 units were renovated and converted into 35 saleable units. The total costs associated with the 35 units were \$13,420,649. During 2012, the Partnership sold the remaining seven units. At December 31, 2013 and 2012, zero units were available for sale. Three units sold in 2012 were within the 90-day rescission period as of December 31, 2012 and are being accounted for under the profit-sharing method.



As of December 31, 2012, the carrying value of the profit sharing liability relating to these sales was \$33,361. As of April 23, 2013, the rescission period for these sales has expired and the Partnership is no longer required to account for the sales under the profit-sharing method. Gains of \$33,361 were recognized in 2013.

Impairment (gain on sale) were (\$33,361) and \$30,566 for the years ended December 31, 2013 and 2012, respectively. The Partnership's estimate of the fair value of the condominium units was based upon the expected sales price for each unsold condominium unit representing Level 3 inputs. The assumptions included sales price projections and marketing and sales cost estimates.

#### **4. TRANSACTIONS WITH AFFILIATES**

The Partnership has a management agreement with SSLMI to manage the facility. The agreement provided for a monthly fee of 6% of gross operating revenue. Total management fees incurred were \$309,711 and \$295,891 in 2013 and 2012, respectively.

The Partnership obtained worker's compensation, professional and general liability and property coverage through Sunrise Senior Living Insurance, Inc., an affiliate of Sunrise. Related expenses totaled \$86,736 and \$115,845 in 2013 and 2012, respectively.

#### **5. CONTINUING CARE AGREEMENTS**

Residents of the community are required to sign a continuing care agreement ("Care Agreement") with the Partnership. The Care Agreements stipulate, among other things, monthly fees, the terms of resale of condominiums, transfer fees due at resale, and an initial payment to The Carlisle Reserve Fund. In addition, the Care Agreements provide the Partnership with the right to increase future monthly fees.

The Carlisle Reserve Fund Trust (the "Trust") was established on April 16, 2011, to assist The Carlisle of San Francisco Homeowners' Association (the "HOA") in monitoring and having input regarding the uses of The Carlisle Reserve Fund. The Trust is administered in accordance with the Declaration of Trust, which requires that the income and principal of the Trust be used to support The Carlisle Reserve Fund for the exclusive benefit of The Carlisle and the residents of The Carlisle, including (but not limited to) structural upgrades and replacement of fixtures and equipment. The Trust is administered by three trustees, two of whom are appointed by Sunrise and one of whom is appointed by the HOA.

Because Sunrise has the right to appoint two of the three trustees, it is deemed to control the Trust and consolidates the Trust in its financial statements. The Partnership has no direct interest in the Trust and does not have the right to appoint a trustee, and therefore does not consolidate the Trust.

#### **6. CONTINGENCIES**

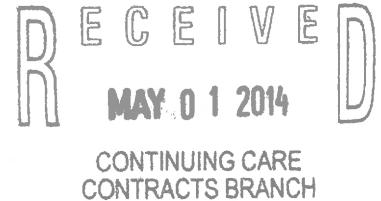
The Partnership is involved in claims and lawsuits incidental to the ordinary course of business. While the outcome of these claims and lawsuits cannot be predicted with certainty, management of the Partnership does not believe the ultimate resolution of these matters will have a material adverse effect on the Partnership's financial position.

## **Other Financial Information**



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## Report of Independent Auditors

To the Partners of  
Sunrise Carlisle, LP

We have audited the accompanying schedules of long-term debt, net operating expenses, and liquid reserve amount on Forms 5-1 through 5-5 (the Schedules) of Sunrise Carlisle, LP as of December 31, 2013, and for the year then ended and the related notes.

### Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of the Schedules on the basis of the financial reporting provisions of the California Health and Safety Code section 1792, as instructed under the State of California Department of Social Services Annual Report Instructions dated January 1, 2007. Management also is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates, made by management, as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Schedules referred to above present fairly, in all material respects, the long-term debt, net operating expenses, and liquid reserve amount on Forms 5-1 through 5-5 of Sunrise Carlisle, LP at December 31, 2013 and for the year then ended, on the basis of financial reporting provisions of the California Health and Safety Code section 1792 as instructed under the State of California Department of Social Services Annual Report Instructions dated January 1, 2007.



### **Contractual Basis of Accounting**

As described in Note 2 to the Schedules, the Schedules were prepared by Sunrise Carlisle, LP as instructed under the State of California Department of Social Services Annual Report Instructions dated January 1, 2007, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### **Restriction on Use**

This report is intended solely for the information and use of management and the partners of Sunrise Carlisle, LP and the State of California Department of Social Services and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

April 18, 2014

Sunrise Carlisle, LP

Form 5-1 -  
Long-Term Debt Incurred In a Prior Fiscal Year  
(Including Balloon Debt)

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Principal Paid During Fiscal Year	Interest Paid During Fiscal Year	Credit Enhancement Premiums Paid in Fiscal Year	Total Paid (columns (b)+(c)+(d))
None					
<b>TOTAL:</b>					\$0

*(Transfer this amount  
to Form 5-3, Line 1)*

Sunrise Carlisle, LP

Form 5-2 -  
Long-Term Debt Incurred During the Fiscal Year  
(Including Balloon Debt)

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent Payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (Columns (c) x (d))
None					
<b>TOTAL:</b>					\$0

*(Transfer this amount  
to Form 5-3, Line 2)*

Sunrise Carlisle, LP

Form 5-3 -  
Calculation of Long-Term Debt Reserve Amount

Line		Total
[1]	Total from Form 5-1 bottom of Column (e)	\$ 0
[2]	Total from Form 5-2 bottom of Column (e)	\$ 0
[3]	Facility leasehold or rental payment paid by provider during fiscal year. (Including related payments such as lease insurance)	\$ 0
[4]	Total Amount Required For Long-Term Debt Reserve:	\$ 0

Sunrise Carlisle, LP

Form 5-4 -  
Calculation of Net Operating Expenses

Line	Amounts	Total
[1] Total operating expenses from financial statements		<u>5,372,273</u> (A)
[2] Deductions		
a Interest paid on long term debt (see instructions)	\$ -	
b Credit enhancement premiums paid for long-term debt (see instructions)	-	
c Depreciation	21,735	
d Amortization	193,966	
e Revenues received during the fiscal year for services to persons who did not have a continuing care contract	33,983	
f Extraordinary expenses approved by the Department	<u>-</u>	
[3] Total Deductions		<u>\$ (249,684)</u>
[4] Net Operating Expenses		<u>\$ 5,122,589</u>
[5] Divide Line 4 by 365 and enter the result		<u>\$ 14,034</u>
[6] Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<div style="border: 1px solid black; padding: 5px; display: inline-block;">\$ 1,052,550</div>

(A) Total operating expenses include (\$33,361) of impairment gain, which is a non-cash expense.



FORM 5-5  
ANNUAL RESERVE CERTIFICATION

Provider Name: Sunrise Carlisle, LP

Fiscal Year Ended: December 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows (see Note below):

	Amount
[1] Debt Service Reserve Amount	\$ -
[2] Operating Expense Reserve Amount	\$ 1,052,550
[3] Total Liquid Reserve Amount	\$ 1,052,550

Qualifying assets sufficient to fulfill the above requirements are held as follows: (see Note below):

	Amount (market value at end of quarter)	
<u>Qualifying Asset Description</u>	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents		\$ 34,214,000
[5] Investment Securities		
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other:		

Total Amount of Qualifying Assets

Listed for Liquid Reserve:	[11] \$ -	[12] \$ 34,214,000
Total Amount Required	[13] \$ -	[14] \$ 1,052,550
Surplus/(Deficiency)	[15] \$ -	[16] \$ 33,161,450

Note: No cash and cash equivalents are held by Sunrise Carlisle, LP. Cash is consolidated and held by Sunrise Senior Living, LLC. In order to provide a more complete portrayal of the assets available to meet the required reserves, DSS has requested the Form 5-5 be adjusted to reflect the qualifying assets from the audited financial statements of Sunrise Senior Living, LLC.

Signature: (SCHEDULE ADJUSTMENTS - UNAUDITED)

Marc A. [Signature]  
(Authorized Representative)

4/30/14  
(Date)

CFO  
(Title)

**SUNRISE CARLISLE, LP**  
**NOTES TO ANNUAL RESERVE CALCULATION**  
**YEAR ENDED DECEMBER 31, 2013**

---

**1. ORGANIZATION**

**Organization** — On August 1, 2006, Sunrise Carlisle, LP (the “Partnership”), a Delaware limited partnership, acquired all easements and rights for The Carlisle and title to ten of the building’s 102 condominium units from Raiser Resources, LLC. The Partnership acquired an additional 37 condominium units in July 2007. The 47 units were renovated and converted into 35 saleable units. At December 31, 2013, zero condominium units were available for sale. Sunrise Senior Living Investments, Inc. (“SSLII”) holds a 99% interest in the Partnership. Sunrise Carlisle GP, LLC, a wholly owned subsidiary of SSLII, holds a 1% interest in the Partnership.

The Carlisle filed a declaration as a condominium and a continuing care retirement community (“CCRC”) in San Francisco City and County, California on August 28, 1992. As a condition of ownership, each owner of a condominium is required to enter into a residence and care agreement with St. Mary’s Community Care Corporation, St Mary’s Hospital and Medical Center and Catholic Healthcare West (collectively “St. Mary’s”). In 1998, the interests held by St. Mary’s were transferred to Raiser Senior Services, LLC, an affiliate of Raiser Resources, LLC and were subsequently transferred to the Partnership. The Partnership manages and operates The Carlisle and markets vacant units on behalf of the owners. The Partnership is entitled to transfer fees on the sale of a condominium unit in accordance with the CCRC agreements.

On January 9, 2013, Healthcare REIT, Inc. (“HCN”) acquired Sunrise Senior Living, Inc. (“SSLI”). In conjunction with the transaction, Red Fox Management, LP (“Red Fox”), a new entity formed by affiliates of Kohlberg Kravis Roberts & Co. L.P., Beecken Petty O’Keefe & Company and Coastwood Senior Housing Partners LLC, entered into a Membership Interest Purchase Agreement with SSLI to acquire SSLI’s management business which includes Sunrise Senior Living Management, Inc. (“SSLMI”) and SSLII’s equity interests in the Partnership. The Partnership has a management agreement with SSLMI to manage the facility. Sunrise Senior Living, LLC (“Sunrise”) is the successor entity to SSLI. Sunrise indirectly owns 100% of the Partnership and funds the Partner through its capital account as needed.

On December 20, 2013, Red Fox entered into a Unit Purchase and Merger Agreement with HCN for HCN and a capital partner to acquire the remaining equity interests of Kohlberg Kravis Roberts & Co. L.P., Beecken Petty O’Keefe & Company and Coastwood Senior Housing Partners LLC in Red Fox. HCN subsequently announced it was partnering with Revera, Inc. (“Revera”) a leading Canadian provider of senior living services, to complete the transaction. The transaction is expected to close in the second quarter of 2014, subject to regulatory approvals.

**2. PURPOSE OF THE ANNUAL RESERVE CALCULATION**

As the Company operates as a CCRC, the Partnership is required to file Forms 5-1 through 5-5 of the California Health and Safety Code section 1792 (the Schedules) as instructed under the State of California Department of Social Services Annual Report Instructions issued on

January 1, 2007 for the year ended December 31, 2013. The purpose of the Schedules is to determine the amount the Company must hold in its liquid reserves for debt service and operating expense.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** — The Partnership's Schedules are prepared on an accrual basis. The Partnership reviewed subsequent events through April 18, 2014, the date the Schedules were issued, for inclusion in these financial statements and Schedules.

**Cash and Cash Equivalents** — The Partnership has only a petty cash account. Cash transactions are generally processed by Sunrise. The contributions from partners of \$73,703 represent the net cash provided by Sunrise and retained by the Partnership for the year ended December 31, 2013.

### **4. REVENUE FROM NON-CONTINUING CARE RESIDENTS**

The Partnership has deducted \$33,983 on Form 5-4 line 2 (e) for revenues received during the fiscal year for services to persons who did not have a continuing care contract. The revenue represents service fees received for guest suite rentals and meals for non-continuing care residents.

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MAY 01 2014

CONTINUING CARE  
CONTRACTS BRANCH

CONSOLIDATED FINANCIAL STATEMENTS

Red Fox Holding Corporation and its Wholly Owned Subsidiary  
Sunrise Senior Living, LLC  
As of December 31, 2013 and for the Period January 9, 2013 (inception) to  
December 31, 2013  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

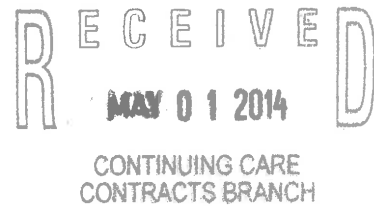
**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
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## Report of Independent Auditors

### Management of Red Fox Holding Corporation and Sunrise Senior Living, LLC

We have audited the accompanying consolidated financial statements of Red Fox Holding Corporation and its wholly owned subsidiary Sunrise Senior Living, LLC, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, comprehensive income, changes in members' equity and cash flows for the period from January 9, 2013 (inception) to December 31, 2013, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Red Fox Holding Corporation and its wholly owned subsidiary Sunrise Senior Living, LLC at December 31, 2013, and the consolidated results of their operations and their cash flows for the period from January 9, 2013 (inception) to December 31, 2013 in conformity with U.S. generally accepted accounting principles.



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### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating balance sheet as of December 31, 2013, and the related consolidating statements of operations, comprehensive income, changes in members' equity and cash flows for the period from January 9, 2013 (inception) to December 31, 2013 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst & Young LLP*

March 11, 2014



**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
CONSOLIDATED BALANCE SHEET**

(In thousands)	<u>December 31, 2013</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 34,703
Accounts receivable, net	33,893
Notes receivable	553
Due from affiliates (see Note 14)	13,440
Deferred income taxes, net	10,537
Restricted cash	46,307
Prepaid insurance	2,476
Prepaid expenses and other current assets	9,669
Total current assets	<u>151,578</u>
Property and equipment, net	97,437
Notes receivable	4,247
Intangible assets, net	101,703
Restricted cash	76,741
Restricted investments in marketable securities	3,347
Due from affiliates (see Note 14)	17,906
Other assets, net	10,937
Total assets	<u><u>\$ 463,896</u></u>
<b>LIABILITIES AND EQUITY</b>	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 105,012
Due to affiliates (see Note 14)	836
Deferred revenue	7,171
Entrance fees	12,856
Self-insurance liabilities	44,540
Total current liabilities	<u>170,415</u>
Self-insurance liabilities	42,212
Deferred income tax liabilities	12,602
Other long-term liabilities, net	63,618
Total liabilities	<u>288,847</u>
Equity:	
Members' equity	167,228
Accumulated other comprehensive loss	(404)
Total members' equity	<u>166,824</u>
Noncontrolling interests	8,225
Total equity	<u>175,049</u>
Total liabilities and equity	<u><u>\$ 463,896</u></u>

See accompanying notes

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
CONSOLIDATED STATEMENT OF OPERATIONS**

(In thousands)	<b>For the Period January 9, 2013 (inception) to December 31, 2013</b>
Operating revenue:	
Management fees (see Note 14)	\$ 106,157
Resident fees for consolidated communities	275,492
Ancillary fees	7,818
Professional fees from development, marketing and other	2,012
Reimbursed costs incurred on behalf of managed communities (see Note 14)	778,071
Total operating revenue	<u>1,169,550</u>
Operating expenses:	
Community expense for consolidated communities	188,141
Community lease expense	71,231
Depreciation and amortization	19,127
Ancillary expenses	7,263
General and administrative	84,024
Transition costs	9,321
Transaction costs	8,324
Stock compensation expense	2,577
Provision for doubtful accounts	1,087
Costs incurred on behalf of managed communities	787,617
Carrying costs of idle land	2,089
Total operating expenses	<u>1,180,801</u>
Loss from operations	(11,251)
Other non-operating income (expense):	
Interest income, including income on release of restricted cash	18,644
Interest expense	(2,644)
Other expense	(1,088)
Total other non-operating expense	<u>14,912</u>
Bargain purchase gain	<u>183,211</u>
Income before benefit from income taxes and discontinued operations	186,872
Benefit from income taxes	<u>1,899</u>
Net income before discontinued operations	188,771
Discontinued operations, net of tax	<u>(8,062)</u>
Net income	180,709
Less: Loss attributable to noncontrolling interests, net of tax	1,181
Net income attributable to members	<u><u>\$ 181,890</u></u>

See accompanying notes

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(In thousands)	<b>For the Period January 9, 2013 (inception) to December 31, 2013</b>
Net income	\$ 180,709
Other comprehensive income (loss)	
Foreign currency translation adjustments	(943)
Unrealized gain on investments	539
Comprehensive income	<u>180,305</u>
Less: Comprehensive loss attributable to noncontrolling interests	642
Comprehensive income attributable to members	<u><u>\$ 180,947</u></u>

See accompanying notes

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY**

(In thousands)	Members' Equity	Accumulated Other Comprehensive Loss	Total Members' Equity	Equity Attributable to Noncontrolling Interests	Total Equity
Balance at January 9, 2013 (inception)	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of membership units	75,694	-	75,694	-	75,694
Distributions to members	(92,933)	-	(92,933)	-	(92,933)
Stock option expense	2,577	-	2,577	-	2,577
Initial fair value of noncontrolling interests	-	-	-	9,172	9,172
Deconsolidation of controlled entities	-	-	-	793	793
Net income (loss)	181,890	-	181,890	(1,181)	180,709
Distributions to noncontrolling interests	-	-	-	(559)	(559)
Foreign currency translation loss	-	(943)	(943)	-	(943)
Unrealized gain on investments	-	539	539	-	539
Balance at December 31, 2013	<u>\$ 167,228</u>	<u>\$ (404)</u>	<u>\$ 166,824</u>	<u>\$ 8,225</u>	<u>\$ 175,049</u>

See accompanying notes

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
CONSOLIDATED STATEMENT OF CASH FLOW**

(In thousands)	For the Period January 9, 2013 (inception) to December 31, 2013
<b>Operating activities</b>	
Net income	\$ 180,709
Less: net loss from discontinued operations	8,062
Adjustments to reconcile net income to net cash provided by operating activities:	
Bargain purchase gain	(183,211)
Interest income on release of restricted cash	(17,972)
Depreciation and amortization	19,127
Provision for doubtful accounts	1,087
Loss from deferred income taxes	(187)
Amortization of deferred financing costs	408
Amortization of leases, including above and below market lease asset and liability	5,703
Stock-based compensation	2,577
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	8,885
Due from/due to affiliate	2,863
Prepaid expenses and other current assets	1,867
Captive insurance restricted cash	4,512
Other assets	(414)
Increase (decrease) in:	
Accounts payable, accrued expenses and other liabilities	(4,811)
Entrance fees	(4,517)
Self-insurance liabilities	2,101
Deferred revenue	3,187
Net cash provided by discontinued operations	532
Net cash provided by operating activities	<u>30,508</u>
<b>Investing activities</b>	
Acquisition of Sunrise Senior Living, LLC, net of cash acquired	(46,503)
Capital expenditures	(13,206)
Change in restricted cash	91,391
Payments from notes receivable	567
Net cash provided by discontinued operations	12,317
Net cash provided by investing activities	<u>44,566</u>
<b>Financing activities</b>	
Borrowings on credit facility	5,000
Repayments of credit facility	(5,000)
Issuance of membership units	75,694
Distributions to members	(92,933)
Distributions to noncontrolling interests	(559)
Financing costs paid	(1,978)
Net cash used in discontinued operations	(20,595)
Net cash used in financing activities	<u>(40,371)</u>
Net increase in cash and cash equivalents	34,703
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period	<u>\$ 34,703</u>
<b>Supplemental Disclosure of Noncash Information:</b>	
Accrued capital expenditures	<u>\$ 1,298</u>

See accompanying notes

## **1. Organization and Presentation**

### ***Organization***

Red Fox Holding Corporation ("Red Fox") through its wholly owned subsidiary Sunrise Senior Living, LLC ("Sunrise LLC" and collectively with Red Fox, "we") is a provider of senior living services in the United States, Canada and the United Kingdom. We offer a full range of personalized senior living services, including independent living, assisted living, care for individuals with Alzheimer's and other forms of memory loss, nursing and rehabilitative care. At December 31, 2013, we operated 290 communities, including 248 communities in the United States, 15 communities in Canada and 27 communities in the United Kingdom, with a total unit capacity of approximately 26,000.

Sunrise LLC was formed on January 9, 2013 under the laws of the State of Delaware to be the successor entity of Sunrise Senior Living, Inc. ("Sunrise Inc.") and will remain in full force and effect until terminated as provided in the limited liability agreement. Red Fox is a subsidiary of Red Fox Management, LP ("Red Fox LP"), a new entity formed by affiliates of Kohlberg Kravis Roberts & Co. L.P., Beecken Petty O'Keefe & Company and Coastwood Senior Housing Partners LLC. Red Fox acquired Sunrise Inc.'s management business through Sunrise LLC on January 9, 2013 from Health Care REIT, Inc. ("HCN") for \$129.5 million, subject to working capital adjustments. HCN holds an approximate 20% indirect interest in Red Fox. To the fullest extent permitted by law, Red Fox has no liability for Sunrise LLC's debts, obligations and liabilities.

On December 20, 2013, Red Fox entered into a Unit Purchase and Merger Agreement with HCN and Red Fox LP for HCN and a capital partner to acquire the remaining 80% equity interests of Red Fox and 100% equity interests of Red Fox LP. HCN subsequently announced that it was partnering with Revera Inc. ("Revera"), a leading Canadian provider of senior living services, to complete the acquisition. Upon closing of the transaction, HCN will own a 24% interest in Red Fox LP and Revera will own the remaining interest. We will continue to manage our existing communities following the transaction close. The transaction is expected to close in the second quarter of 2014, subject to regulatory approvals.

### ***Basis of Presentation***

The consolidated financial statements which are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") include our wholly owned and controlled subsidiaries. Variable interest entities ("VIEs") in which we have an interest have been consolidated when we have been identified as the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

Discontinued operations consist of one community sold on November 1, 2013. Prior to its sale, we consolidated this community because it was a VIE in which we had an interest and we were the primary beneficiary.

## **2. Significant Accounting Policies**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### ***Cash and Cash Equivalents***

We consider cash and cash equivalents to include currency on hand, demand deposits, and all highly liquid investments with a maturity of three months or less at the date of purchase.

### ***Restricted Cash***

We utilize large deductible blanket insurance programs in order to contain costs for certain lines of insurance risks including workers' compensation and employers' liability risks, automobile liability risk, employment practices liability risk and general and professional liability risks ("Self-Insured Risks"). We have self-insured a portion of the Self-Insured Risks through our wholly owned captive insurance subsidiary, Sunrise Senior Living Insurance, Inc. (the "Sunrise Captive"). The Sunrise Captive issues policies of insurance on behalf of us and each community we operate and receive premiums from us and each community we operate. The Sunrise Captive pays the costs for each claim above a deductible up to a per claim limit. Cash held by the Sunrise Captive was \$88.0 million at December 31, 2013. The earnings from the investment of the cash of the Sunrise Captive are used to reduce future costs and pay the liabilities of the Sunrise Captive.

Also included in restricted cash is \$10.0 million related to a lease extension with a related letter of credit to Marriott International, Inc. ("Marriott").

In 2011, Marriott consented to the extension of the term of four leases for a five-year term commencing January 1, 2014 and ending December 31, 2018. In return for its consent to the lease extension and its maintenance of a guarantee, Sunrise Inc. provided Marriott with a letter of credit (the "Letter of Credit") issued by KeyBank, NA ("KeyBank") with a face amount of \$85.0 million to secure Marriott's exposure under the guarantees. During the lease term, we, as successor entity, will be required to pay Marriott an annual payment in respect of the cash flow of the leased facilities, subject to a \$1 million annual minimum. Marriott may draw on the Letter of Credit in order to pay any obligations if not paid by us when due. Marriott has agreed to reduce the face amount of the Letter of Credit proportionally on a quarterly basis during the lease term as we pay our rental obligations.

Sunrise Inc. provided KeyBank with cash collateral of \$85.0 million as security for its Letter of Credit obligations. In January 2013 in association with the acquisition, we recorded the balance of the \$85.0 million restricted cash collateral at a fair value of \$67.0 million (see Note 3). In May 2013 as a part of the KeyBank revolver (See Note 9), \$75.0 million of the \$85.0 million in restricted cash relating to the Letter of Credit became unrestricted. Accordingly, income of approximately \$18.0 million was recorded and reflected in the consolidated statement of operations as interest income, including income on release of restricted cash.

The details of our restricted cash as of December 31, 2013 are as follows (in millions):

	2013
Self insurance restricted cash	\$ 88.0
Cash collateral for letters of credit	10.0
Cash held by controlled entities	14.0
Other restricted cash	11.0
	<u>\$ 123.0</u>

#### *Allowance for Doubtful Accounts*

We provide an allowance for doubtful accounts on our outstanding receivables based on an analysis of collectability, including our collection history and generally do not require collateral to support outstanding balances.

#### *Due from and Due to Affiliates*

Due from affiliates represents amounts due from HCN and the communities we manage for them for management fees, payroll, insurance and other operating costs that are reimbursed to us, generally within 30 days. Due to affiliates is primarily net tax refunds due to HCN under an indemnification agreed to as part of Red Fox's purchase of Sunrise LLC from HCN (as discussed in Note 3). Amounts due from affiliates, long term, represents an indemnification receivable from HCN related to our uncertain tax positions (as discussed in Note 3).

#### *Notes Receivable*

The collectability of the notes is monitored based on the credit worthiness of the issuer. If circumstances were to suggest that any amounts with respect to these notes would be uncollectible, we would establish a reserve to record the notes at their net realizable value.

#### *Property and Equipment*

At acquisition, property and equipment was recorded at fair value as required by purchase accounting. Thereafter, property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the lesser of the estimated useful lives of the related assets or the remaining lease term. Repairs and maintenance are charged to expense as incurred.

We review the carrying amounts of long-lived assets for impairment when indicators of impairment are identified. If the carrying amount of the long-lived asset exceeds the undiscounted expected cash flows that are directly associated with the use and eventual disposition of the asset, we record an impairment charge to the extent the carrying amount of the asset exceeds the fair value of the asset. We determine the fair value of long-lived assets based upon valuation techniques that include prices for similar assets.

### ***Business Combinations***

Our consolidated financial statements include the operations of acquired businesses from the date of acquisition. We account for acquired businesses using the acquisition method of accounting. The acquisition method of accounting for acquired businesses requires, among other things, that most assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. Also, transaction costs are expensed as incurred.

### ***Intangible Assets***

We capitalize costs incurred to acquire and renew management, development and other contracts, consisting of leaseholds, market leases and our company trade name. We use the acquisition method of accounting in determining the allocation of the purchase price to intangible assets acquired. We make estimates of the fair value of the intangible assets using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals.

Intangible assets are valued using expected discounted cash flows and are amortized using the straight-line method over the remaining contract term, generally ranging from one to 30 years. The carrying amounts are reviewed for impairment when indicators of impairment are identified. If the carrying amount of the asset (group) exceeds the undiscounted expected cash flows that are directly associated with the use and eventual disposition of the asset (group), an impairment charge is recognized to the extent the carrying amount of the asset exceeds the fair value.

We determined our company trade name, Sunrise Senior Living, has an indefinite economic life and is not amortized into results of operations. On an annual basis a qualitative assessment may be performed to determine whether it is more likely than not that this indefinite-lived intangible is impaired. If this qualitative assessment indicates any potential impairment, a quantitative fair value measurement calculation is required. If the carrying amount of the trademark exceeds the calculated fair value, an impairment charge is recognized in an amount equal to the excess.

### ***Deferred Financing Costs***

Costs incurred in connection with obtaining financing are deferred and amortized over the term of the financing. Deferred financing costs are included in "Other assets" in the consolidated balance sheet. Deferred financing costs related to the Credit Facility were \$2.0 million with accumulated amortization of \$0.4 million at December 31, 2013.

### ***Loss Reserves For Certain Self-Insured Programs***

We offer a variety of insurance programs to the communities we operate. These programs include property insurance, general and professional liability insurance, excess/umbrella liability insurance, crime insurance, automobile liability and physical damage insurance, workers' compensation and employers' liability insurance and employment practices liability insurance (the "Insurance Program"). Substantially all of the communities we operate that participate in the Insurance Program are charged their proportionate share of the cost of the Insurance Program.

We utilize large deductible blanket insurance programs in order to contain costs for certain of the lines of insurance risks in the Insurance Program including self-insured risks. The design and purpose of a large deductible insurance program is to reduce overall premium and claim costs by internally financing lower cost claims that are more predictable from year to year, while buying insurance only for higher-cost, less predictable claims.

We have self-insured a portion of the self-insured risks through the Sunrise Captive. The Sunrise Captive issues policies of insurance on behalf of us and each community we operate and receives premiums from us and each community we operate. The Sunrise Captive pays the costs for each claim above a deductible up to a per claim limit. Third-party insurers are responsible for claim costs above this limit. These third-party insurers carry an A.M. Best rating of A-/VII or better.

We record outstanding losses and expenses for all self-insured risks and for claims under insurance policies based on management's best estimate of the ultimate liability after considering all available information, including expected future cash flows and actuarial analyses. The recorded liability for self-insured risks was approximately \$86.8 million at December 31, 2013, based on an actuarial valuation as of December 31, 2013. We review our sensitivity analysis annually and our annual estimated cost for self-insured risks is determined using management judgment including actuarial analyses at various confidence levels. Our confidence level, based on our annual review, is currently at 50% ("expected"). We believe the expected confidence level provides our best estimate of our expected liability due to our sufficient history of paid and incurred claims associated with our Sunrise Captive. The confidence level is the likelihood that the recorded expense will exceed the ultimate incurred cost. If we had used a 75% confidence level, the recorded liability would be approximately \$100.0 million. If we had used a 90% confidence level, the recorded liability would be approximately \$114.5 million.



We believe that the allowance for outstanding losses and expenses is appropriate to cover the ultimate cost of losses incurred at December 31, 2013 based on our best estimate at that date. The allowance may ultimately be settled for a greater or lesser amount. Any subsequent changes in estimates are recorded in the period in which they are determined and will be shared with the communities participating in the Insurance Programs based on the proportionate share of any changes.

#### ***Employee Health, Dental and Short Term Disability Benefits***

We offer employees an option to participate in our self-insured health, dental and short term disability plans. The cost of our employee health and dental benefits, net of employee contributions, is shared between us and the communities based on the respective number of participants working either at our community support office or at the communities. Funds collected are used to pay the actual program costs including estimated annual claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by us. Claims are paid as they are submitted to the plan administrator. We also record a liability for outstanding claims and claims that have been incurred but not yet reported. This liability is based on the historical claim reporting lag and payment trends of health insurance claims. We believe that the liability for outstanding losses and expenses is adequate to cover the ultimate cost of losses incurred at December 31, 2013, but actual claims may differ. Any subsequent changes in estimates are recorded in the period in which they are determined and will be shared with the communities participating in the program based on their proportionate share of any changes. The self-insured short term disability plan only includes eligible community support office team members.

#### ***Continuing Care Agreements and Future Service Obligation***

We lease communities under operating leases and own communities that provide life care services under various types of entrance fee agreements with residents ("Entrance Fee Communities" or "Continuing Care Retirement Communities"). Residents of Entrance Fee Communities are required to sign a continuing care agreement with us. The care agreement stipulates, among other things, the amount of all entrance and monthly fees, the type of residential unit being provided, and our obligation to provide both health care and non-health care services. In addition, the care agreement provides us with the right to increase future monthly fees. The care agreement is terminated upon the receipt of a written termination notice from the resident or the death of the resident. Refundable entrance fees are returned to the resident or the resident's estate depending on the form of the agreement either upon re-occupancy or termination of the care agreement.

When the present value of estimated costs to be incurred under care agreements exceeds the present value of estimated revenues, the present value of such excess costs is accrued. The calculation is performed annually and assumes a future increase in the monthly revenue commensurate with the monthly costs. The calculation currently results in an expected positive net present value cash flow and, as such, no liability has been recorded as of December 31, 2013.

Refundable entrance fees are primarily non-interest bearing and, depending on the type of plan, can range from between 30% to 100% of the total entrance fee less any additional occupant entrance fees. As these obligations are considered security deposits, interest is not imputed on these obligations. Deferred entrance fees were \$12.9 million at December 31, 2013.

Non-refundable portions of entrance fees are deferred and recognized as revenue using the straight-line method over the actuarially determined expected term of each resident's contract.

#### ***Asset Retirement Obligations***

In accordance with ASC Asset Retirement and Environmental Obligations Topic, we record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated.

Certain of our operating real estate assets contain asbestos. The asbestos is appropriately contained, in accordance with current environmental regulations, and we have no current plans to remove the asbestos. When, and if, these properties are demolished, certain environmental regulations are in place that specify the manner in which the asbestos must be handled and disposed of. Because the obligation to remove the asbestos has an indeterminable settlement date, we are not able to reasonably estimate the fair value of this asset retirement obligation.

In addition, one of our long-term ground leases includes a clause that may require us to dispose of the leasehold improvements constructed on the premises at the end of the lease term. These costs, however, are not estimable due to the range of potential settlement dates and variability among properties. Further, we believe the present value of any such costs would be insignificant as the remaining term of the lease is more than forty years.

## *Income Taxes*

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. We record the current year amounts payable or refundable, as well as the consequences of events that give rise to deferred tax assets and liabilities based on differences in how these events are treated for tax purposes. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. We provide a valuation allowance against the net deferred tax assets when it is more likely than not that sufficient taxable income will not be generated to utilize the net deferred tax assets. After evaluating all available sources of positive and negative evidence it was determined that we needed to record a full valuation allowance on the net deferred tax asset as deferred tax assets in excess of reversing deferred tax liabilities were not likely to be realized.

## *Liability for Possible Tax Contingencies*

Liabilities for tax contingencies are recognized based on the requirements of the ASC Income Tax Topic. This topic requires us to analyze the technical merits of our tax positions and determine the likelihood that these positions will be sustained if they were ever examined by the taxing authorities. If we determine that it is unlikely that our tax positions will be sustained, a corresponding liability is created and the tax benefit of such position is reduced for financial reporting purposes.

*Interest and Penalties.* We are also required to accrue interest and penalties that, under relevant tax law, we would incur if the uncertain tax positions ultimately were not sustained. Accordingly, interest would start to accrue for financial statement purposes in the period in which it would begin accruing under relevant tax law, and the amount of interest expense to be recognized would be computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Penalties would be accrued in the first period in which the position was taken on a tax return that would give rise to the penalty.

*Assumptions.* In determining whether a tax benefit can be recorded, we must make assessments of a position's sustainability and the likelihood of ultimate settlement with a taxing authority. Changes in our assessments would cause a change in our recorded position and changes could be significant. As of December 31, 2013, we had recorded liabilities for possible losses on uncertain tax positions including related interest and penalties of \$17.9 million. We have a receivable from HCN equal to the amount of the liabilities under an indemnification agreement with HCN.

## *Revenue Recognition*

"Management fees" is comprised of fees from management agreements for operating communities owned by third parties, which consist of base management fees and incentive management fees. The base management fees are generally between five and seven percent of a managed community's total operating revenue. Fees are recognized in the month they are earned in accordance with the terms of the management agreement. Management fees earned by our Canadian and United Kingdom management company subsidiaries are recorded net of GST (Goods and Services Tax) and VAT (Value Added Tax), respectively.

"Resident fees from consolidated communities" are recognized monthly as services are provided. Agreements with residents are generally for a term of one year and are cancelable by residents with 30 day notice. Approximately 10% of our resident and ancillary fees from our consolidated communities for the period from January 9 to December 31, 2013 were derived from governmental reimbursement programs. Revenues from these programs are recorded net of contractual adjustments as dictated under the specific program guidelines. Retroactive adjustments or assessments from program cost report audits conducted by governmental agencies are recorded against net revenues in the month we are given notice, without regard to whether we intend to appeal such assessments.

"Ancillary services" is comprised of fees for providing home health assisted living services.

"Professional fees from development, marketing and other" is currently comprised of fees received for renovation projects. Fees for renovation projects are recognized when earned.

"Reimbursed costs incurred on behalf of managed communities" is comprised of reimbursements for expenses incurred by us, as the primary obligor, on behalf of communities operated by us under long-term management agreements. Revenue is recognized when the costs are recorded on the books of the managed communities and we are due the reimbursement. If we are not the primary obligor, certain costs, such as interest expense, real estate taxes, depreciation, ground lease expense, bad debt expense and cost incurred under local area contracts, are not included. The related costs are included in "Costs incurred on behalf of managed communities".

We considered the indicators in ASC Revenue Recognition Topic, in making our determination that revenues should be reported gross versus net. Specifically, we are the primary obligor for certain expenses incurred at the communities, including payroll costs, insurance and items such as food and medical supplies purchased under national contracts entered into by us. We, as manager, are responsible for setting prices paid for the items underlying the reimbursed expenses, including setting pay-scales for our employees. We select the supplier of goods and services to the communities for the national contracts that we enter into on behalf of the communities. We are responsible for the scope, quality and extent of the items for which we are reimbursed. Based on these indicators, we have determined that it is appropriate to record revenues gross versus net.

We generated management fees and reimbursed costs incurred on behalf of managed communities from the following significant owners for the period from January 9, 2013 to December 31, 2013:

	Percent of <u>total revenues</u>
HCN	22%
Ventas	26%
HCP	15%

#### ***Stock-Based Compensation***

We record compensation expense for our employee stock options in accordance with ASC Equity Topic. This Topic requires that all share-based payments to employees be recognized in the consolidated statements of operations based on their grant date fair values with the expense being recognized over the requisite service period. We use the Black-Scholes model to determine the fair value of our awards at the time of grant.

#### ***Foreign Currency Translation***

Our reporting currency is the U.S. dollar. Certain of our subsidiaries' functional currencies are the local currency of their respective country. In accordance with ASC Foreign Currency Matters Topic, balance sheets prepared in their functional currencies are translated to the reporting currency at exchange rates in effect at the end of the accounting period except for stockholders' equity accounts and intercompany accounts with consolidated subsidiaries that are considered to be of a long-term nature, which are translated at rates in effect when these balances were originally recorded. Revenue and expense accounts are translated at a weighted average of exchange rates during the period. The cumulative effect of the translation is included in "Accumulated other comprehensive loss" in the consolidated balance sheet. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the balance sheet date. These differences are recorded as "Other expense" in the consolidated statement of operations. In 2013, we recorded \$0.7 million in net foreign exchange gains related to the British pound.

#### ***Advertising Costs***

We expense advertising costs as incurred. Total advertising expense for the period from January 9, 2013 to December 31, 2013 was \$0.7 million.

### *Legal Contingencies*

We are subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. We record an accrual for loss contingencies when a loss is probable and the amount of the loss can be reasonably estimated. We review these accruals quarterly and make revisions based on changes in facts and circumstances.

### *New Accounting Standards*

The following ASUs were issued in 2013.

ASU 2013-12, *Definition of a Public Business Entity*, provides a single definition of public business entity to minimize the inconsistency and complexity of having multiple definitions of, or a diversity in practice as to what constitutes, a nonpublic entity and public entity within U.S. generally accepted accounting principles (GAAP) on a going-forward basis. The update does not affect existing requirements. Nonpublic entities, or entities that do not meet the definition of a public business entity included in the update, would potentially qualify for alternative financial accounting and reporting guidance currently being proposed and issued by the Financial Accounting Standards Board (FASB) and the Private Company Council (PCC).

ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (Topic 740)*, requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective for us January 1, 2015 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

ASU 2013-03, *Financial Instruments (Topic 825), Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*, clarifies that nonpublic entities are exempt from the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed such as debt. This update was effective immediately upon issuance and did not have a material impact on our consolidated financial position, results of operations or cash flows.

ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220)*, requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account (for example, inventory) instead of directly to income or expense in the same reporting period. ASU 2013-2 is effective for us January 1, 2014 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

The following ASUs were issued in 2012.

ASU 2012-01, *Health Care Entities (Topic 954), Continuing Care Retirement Communities - Refundable Advance Fees*, clarifies the recognition of deferred revenue for refundable advance fees in situations in which continuing care retirement communities that have resident contracts that provide for a payment of a refundable advance fee upon reoccupancy of that unit by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. ASU 2012-01 is effective for us January 1, 2014 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

### 3. Acquisition

On January 9, 2013, we acquired Sunrise Inc.'s management business from HCN for \$129.5 million plus transaction costs of \$8.3 million. Adjustments to the purchase price included \$49.4 million for the assumption of net negative working capital and a \$16.1 million discount on management contracts resulting in a cash payment of \$54.8 million, net of \$17.5 million cash acquired. The purchase price allocations for the acquisition were final as of December 31, 2013.

The following table summarizes the recording, at fair value, of the assets and liabilities at acquisition (in thousands):

	Amounts Recognized as of Acquisition Date
Cash	\$ 17,450
Real estate assets	77,128
Personal property assets	39,967
Intangibles	91,200
Below market lease intangible	20,300
Restricted cash	210,849
Other assets	105,639
Debt	(13,001)
Above market lease liability	(11,500)
Entrance fees	(24,967)
Self-insurance liabilities	(84,905)
Other liabilities	(171,824)
Non-controlling interests	(9,172)
Net assets acquired	247,164
Bargain purchase gain	(183,211)
Total consideration transferred, excluding transaction costs	63,953
Transaction costs	8,324
Total consideration transferred	<u>\$ 72,277</u>
 Total consideration, excluding transaction costs	 \$ 63,953
Cash acquired	(17,450)
Total consideration transferred, net of cash	<u>\$ 46,503</u>

The estimated fair value of the real estate assets at acquisition was approximately \$77.1 million. The fair value of the real estate was calculated by estimating the current replacement cost for those assets based on cost estimates from a construction cost estimating service.

The fair value of personal property assets of \$40.0 million was determined primarily using the cost approach.

Intangibles acquired consist of management contracts of \$67.9 million, leaseholds of \$17.7 million and a trademark intangible of \$5.6 million. The estimated fair value of the intangibles was based on contract terms. The fair value of the management contracts was based on the revenue and expense projections related to each management contract. The projections were then present valued using an adjusted discount rate to calculate fair value. Lease contracts were reviewed for payment terms and remaining lease terms. The inherent value, the right to manage the leased communities, of the leases was recognized at fair value and recorded as leasehold intangibles. Our company trade name or trademark is used by the senior living communities that we manage. Therefore the communities earn additional profits from increased sales and have the ability to charge higher prices due to our brand recognition in the marketplace. The fair value of our trademark was based on a 1% royalty rate applied to revenue projections and an indefinite remaining economic life.

Additionally, the lease contracts above were reviewed for payment terms and remaining lease terms and compared to prevailing market terms. To the extent that each lease contract was favorable or unfavorable relative to market terms, a below market lease intangible or above market lease liability was recognized at fair value.

The estimated fair value of restricted cash approximated book value with the exception of the \$85 million of restricted cash pledged as collateral as security for our Letter of Credit obligations (See Notes 2 and 13). We estimated the fair value of this cash collateral to be \$67 million based on the present value of the expected cash flows.

The fair value of other assets acquired consisting of accounts receivable, due from affiliates, prepaid insurance, prepaid expenses and other assets approximated book value. Also included in other assets are notes receivable (See note 6) with a fair

value of \$5.3 million estimated based on terms of similar financial assets with comparable risks of default, restricted investments in marketable securities with a fair value of \$2.7 million based on quoted prices in active markets and a long term indemnification receivable due from HCN with a fair value of \$19.9 million. This indemnification receivable is discussed further below.

The estimated fair value of the assumed debt was approximately \$13.0 million. The fair value of the debt was estimated based on current rates offered for debt with the same remaining maturities and comparable collateralizing assets.

The fair value of entrance fees, self-insurance liabilities and other liabilities consisting of accounts payable and accrued expenses, due to affiliates, deferred revenue and other long term liabilities approximated carrying value. Also included in other liabilities is deferred revenue from nonrefundable entrance fees with a fair value of \$17.3 million based on the future service obligation to provide future care to current residents and a deferred tax liability with a fair value of \$2.3 million based on the book to tax temporary differences of the acquired assets and liabilities.

The estimated fair value of our noncontrolling interests in a variable interest entity, a joint venture entity and thirteen other entities was estimated based on valuation models and other data points applied by us. The fair value of controlling interests was based on the excess of the fair value of the entities' assets over their liabilities.

The acquisition resulted in a bargain purchase gain as the fair value of the net assets acquired exceeded the purchase price. This gain is reflected in the consolidated statement of operations as bargain purchase gain. The recognition of a bargain purchase gain by Red Fox is a result of the terms of the merger agreement and income tax considerations of the seller.

Included in other assets as of the acquisition date is an indemnification receivable from HCN for certain liabilities. The recorded values of the indemnified liabilities were equal to their acquisition date fair values. The fair value of the indemnification receivable related to these indemnified liabilities was determined to be equal to the fair value of the liabilities.

	Amounts				Amounts at
	Recognized as of	Additional	Payments	Adjustments	December 31, 2013
	Acquisition Date	Accruals	Received		
Transaction bonus payable	\$ 8,461	\$ -	\$ (8,055)	\$ (406)	\$ -
Current taxes/(tax refunds)	(843)	1,371	(1,106)	578	-
Other agreed upon items	-	1,354	(1,354)	-	-
Current due from affiliates	7,618	2,725	(10,515)	172	-
Uncertain tax positions	19,851	1,167	-	(3,112)	17,906
Long term due from affiliates	19,851	1,167	-	(3,112)	17,906
Total indemnification receivable	\$ 27,469	\$ 3,892	\$ (10,515)	\$ (2,940)	\$ 17,906

Transaction bonus payable relates to amounts due under a long-term incentive plan associated with a former UK joint venture. The amount was determined based on executed settlement agreements with the plan participants. The amount recorded for current taxes/(tax refunds) was based on amounts we expected to pay/receive in 2013 at the acquisition date. The amount recorded for uncertain tax positions was equivalent to the liability recorded for possible losses under uncertain tax positions, including interest and penalties. We will continue to accrue interest and penalties on this liability and related receivable from HCN until it is settled. The amount to be received from HCN related to these uncertain tax positions will depend on the actual amount we are required to pay, if any.

Post-acquisition, we recorded additional accruals for other agreed upon indemnified items including severance payments to employees. The adjustment to the transaction bonus payable reflects a foreign exchange loss upon repayment. The adjustment to current taxes/(tax refunds) is a reclassification of the amount to Due to affiliate. The adjustment to uncertain tax positions reflects the release of a portion of the liability upon expiration of state statute of limitations.

During 2013, we incurred \$9.3 million of transition costs related to the acquisition and subsequent transition period through December 31, 2013. These costs include salaries, severance and bonuses for certain members of the Sunrise Inc. executive management team who did not remain with Sunrise LLC, recruitment costs for Sunrise LLC's new CEO and other professional fees incurred related to this transition period.

#### 4. Fair Value Measurements

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The ASC Fair Value Measurements Topic established a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs that are used when little or no market data is available.

#### *Restricted Investments in Marketable Securities*

The following table details the restricted investments in marketable securities measured at fair value as of December 31, 2013 (in thousands):

	December 31, 2013	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted investments in marketable securities	\$ 3,347	\$ 3,347	\$ -	\$ -

The restricted investments in marketable securities relates to a consolidated entity in which we have control but no ownership interest.

#### *Other Fair Value Information*

Cash equivalents, accounts receivable, accounts payable and accrued expenses and other current assets and liabilities are carried at amounts which reasonably approximate their fair values.

#### 5. Allowance for Doubtful Accounts

Allowance for doubtful accounts consists of the following (in thousands):

	Accounts Receivable
Balance at January 9, 2013 (inception)	\$ 8,749
Provision for doubtful accounts (1)	1,194
Write-offs	(2,299)
Balance at December 31, 2013	\$ 7,644

(1) Includes provision associated with discontinued operations

#### 6. Notes Receivable

We have two notes receivable related to the sale of certain subsidiary companies ("Companies") in 2009. The first note is a \$6.0 million note bearing interest at 10% per annum for the first five years and 12% per annum thereafter, due to mature on March 18, 2016, secured by a security interest in the Companies. The second note is a \$2.5 million earn-out, non-interest bearing note due to mature on March 31, 2029. The combined estimated fair value of the notes at January 9, 2013 was approximately \$5.3 million. In 2013, we received payments of \$0.6 million and \$0.4 million in principal and interest, respectively, on the \$6.0 million note. The notes have a remaining balance of \$4.8 million at December 31, 2013, including accrued interest of \$0.1 million.

## 7. Variable Interest Entities

GAAP requires that a variable interest entity ("VIE"), defined as an entity subject to consolidation according to the provisions of the ASC Consolidation Topic, must be consolidated by the primary beneficiary. The primary beneficiary is the party that has both the power to direct activities of a VIE that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the entity that could both potentially be significant to the VIE. We perform ongoing qualitative analysis to determine if we are the primary beneficiary of a VIE. At December 31, 2013, we were not the primary beneficiary of any VIEs.

In 2013, we had a management agreement with a not-for-profit corporation established to own and operate a continuing care retirement community ("CCRC") in New Jersey. This entity was a VIE prior to its sale on November 1, 2013. We were the primary beneficiary of the VIE due to our guarantee of a letter of credit used to secure bonds that were used to acquire and renovate the CCRC. Therefore, we were required to consolidate the entity.

On November 1, 2013, Van der Velde Assisted Living Corp. ("Purchaser") acquired 100% of the interest in the CCRC, including our ownership of the land on which the CCRC is located, for a purchase price equal to \$10.5 million plus the assumption of all the entrance fee liabilities of \$9.0 million. The net proceeds were used to repay a portion of the outstanding balance on the bonds. We were required to pay a shortfall of \$7.9 million to pay the remaining amount outstanding on the bonds resulting in a \$7.3 million loss on financial guarantee which is reflected in discontinued operations. Upon closing, all parties entered into a mutual release of all claims arising in connection with the ownership and operation of the property. As a result of the transaction, we are no longer the primary beneficiary and no longer consolidate this entity.

## 8. Property and Equipment

Property and equipment consists of the following (in thousands):

	Asset Lives	December 31, 2013
Land and land improvements	15 years	\$ 27,587
Building and building improvements	5 - 40 years	41,754
Furniture and equipment	3 - 10 years	41,222
		110,563
Less: Accumulated depreciation		(13,126)
Property and equipment, net		<u>\$ 97,437</u>

Depreciation expense was \$13.5 million, including \$0.8 million for discontinued operations for the period from January 9, 2013 to December 31, 2013.



## 9. Intangible Assets

Intangible assets consist of the following (in thousands):

	Estimated Useful Life	December 31, 2013
Management contracts less accumulated amortization of \$3,837	15 - 30 years	\$ 64,037
Leaseholds less accumulated amortization of \$2,549	5 - 21 years	15,151
Below market lease intangible less accumulated amortization of \$3,385	5 - 6 years	16,915
Trademark	indefinite	5,600
		<u>\$ 101,703</u>
Above market lease liability less accumulated amortization of \$1,636 (see Note 15)	5 - 53 years	<u>\$ 9,864</u>

We recognized \$6.4 million of amortization expense related to our acquired management contracts and leaseholds and \$1.7 million related to our above and below market lease asset and liability (and recorded as lease expense) for the period from January 9, 2013 to December 31, 2013.

Estimated aggregate amortization expense for next five years is as follows (in thousands):

	Management Contracts Amortization	Leaseholds Amortization	Below Market Lease Intangible Amortization	Above Market Lease Liability Amortization
2014	\$ 3,442	\$ 2,549	\$ 3,385	\$ 1,636
2015	3,027	2,549	3,385	1,636
2016	2,788	2,549	3,385	1,636
2017	2,733	2,549	3,385	1,636
2018	2,733	2,247	3,375	775
Thereafter	49,314	2,708	-	2,545
	<u>\$ 64,037</u>	<u>\$ 15,151</u>	<u>\$ 16,915</u>	<u>\$ 9,864</u>

## 10. Debt

### Credit Facility

On May 20, 2013 we entered into a \$115.0 million Credit Facility with KeyBank consisting of a \$30.0 million revolver ("Revolver"), of which \$15.0 million is available for letters of credit and an \$85.0 million senior standby letter of credit extension ("LOC"). The Credit Facility has an initial term of 36 months from closing and has one 12-month extension option subject to: (i) no defaults or events of default; (ii) compliance with all covenants; (iii) written notice of not more than 240 days but not less than 60 days prior to the extension; and (iv) payment of a 35 basis point extension fee. The Revolver has an interest rate, at our option, of LIBOR plus 4.25% or Base Rate (Prime Rate) plus 3.25%. The unused fee is 0.45% if usage is less than 50% and 0.35% if usage is greater than or equal to 50%, paid quarterly in arrears. Interest only payments on the Revolver are due monthly with all principal due at maturity. The Revolver may be prepaid at any time with the provision to make whole resulting from breakage of LIBOR contracts. The LOC commitment reduces on a quarterly basis beginning in 2014 based dollar for dollar on the quarterly lease payments made to HRPT (see Note 2).

Covenants associated with the Credit Facility are as follows:

- Maximum net debt to adjusted EBITDA ("Leverage Ratio") of 4.00x for 2013, 3.75x for 2014 and 3.50x for 2015;
- Minimum Fixed Charge Coverage Ratio of total adjusted EBITDAR to fixed charges of not less than 1.20x;
- Minimum liquidity of \$10.0 million; and
- Distributions are restricted to 50% of excess cash after fixed charges while the Leverage Ratio is less than 3.00 to 1.00 or unrestricted if the Leverage Ratio is less than 2.49 to 1.00, with liquidity of at least \$15.0 million.

At December 31, 2013, we had \$0 drawn on the Revolver, \$5.1 million of letter of credit availability was utilized on the Revolver, and the full \$85.0 million of capacity was utilized of the LOC, leaving us with undrawn capacity under the Revolver of \$24.9 million. We are in compliance with our covenants at December 31, 2013.

In 2013, interest paid totaled \$2.6 million, including \$0.1 million related to our VIE which is reflected in discontinued operations.

## **11. Income Taxes**

The provision for income taxes was a benefit of \$1.9 million with an effective tax rate of (1.02)% for the period January 9, 2013 to December 31, 2013. Our tax benefit related primarily to the release of tax contingencies and state income taxes.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount recognized for income tax purposes. Our deferred tax assets as of December 31, 2013 consist primarily of general operating accruals, future stock option deductions, deferred revenue, future service obligations, investments in wholly owned joint ventures, and federal and state net operating loss carryforwards. Total deferred tax assets as of December 31, 2013 were \$68.1 million. We have recorded a full valuation allowance on the deferred tax asset as deferred tax assets in excess of reversing deferred tax liabilities are not likely to be realized. Our deferred tax liabilities primarily consist of the difference between the book and tax basis in the fixed assets and intangible property, investment in foreign subsidiaries, and indemnifications. Total deferred tax liabilities as of December 31, 2013 were \$58 million.

Our worldwide taxable loss for 2013 was estimated to be \$53.6 million. All available sources of positive and negative evidence were evaluated to determine if there should be a valuation allowance on our net deferred tax asset. In 2013, we recorded a full valuation allowance on the deferred tax assets in the U.S. and Germany as deferred tax assets in excess of reversing deferred tax liabilities were not likely to be realized. No valuation allowance was recorded in Canada or the UK because the deferred tax liabilities exceed the assets. At December 31, 2013, our total valuation allowance on deferred tax assets was \$12.2 million.

At December 31, 2013, we have estimated U.S. federal net operating loss carryforwards of \$87.3 million which are carried forward to offset future taxable income in the U.S. for up to 20 years. The pre-acquisition net operating losses are subject to an annual Section 382 limitation. Therefore, the Company is only permitted to use \$2.3 million of loss generated before January 9, 2013 on an annual basis. At December 31, 2013, we had state net operating loss carryforwards valued at \$3.1 million, which are expected to expire from 2014 through 2029. At December 31, 2013, we had Canadian net operating loss carryforwards of \$0.3 million to offset future foreign taxable income, which are carried forward to offset future taxable income in Canada for up to 20 years. At December 31, 2013, we had UK net operating loss carryforwards of \$7.5 million to offset future foreign taxable income, which have an unlimited carryforward period. At December 31, 2013 we had German net operating loss carryforwards to offset future foreign taxable income of \$72.4 million, which have an unlimited carryforward period. In 2013 we provided income taxes for unremitted earnings of our foreign subsidiaries that are not considered permanently reinvested.

The major components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

	Year Ended December 31, 2013
Current:	
Federal	\$ (1,767)
State	40
Foreign	-
Total current expense	(1,727)
Deferred:	
Federal	-
State	-
Foreign	(172)
Total deferred benefit	(172)
Provision for (benefit from) income taxes	<u>\$ (1,899)</u>

There was no income tax benefit allocated to discontinued operations for 2013. No income taxes were paid in 2013.

The differences between the amount that would have resulted from applying the domestic federal statutory tax rate (35%) to pre-tax income from continuing operations and the reported income tax expense from continuing operations recorded include state income taxes; change in the valuation allowance; tax contingencies; foreign rate differentials; tax exempt entities; and purchase accounting adjustments.

Included in the balance of unrecognized tax benefits at December 31, 2013 was approximately \$10.2 million of tax positions that, if recognized, would decrease our effective tax rate.

We reflect interest and penalties, if any, on unrecognized tax benefits in the consolidated statements of operations as income tax expense. The amount of interest recognized in the consolidated statements of operations for 2013 related to unrecognized tax benefits was a pre-tax expense of \$0.6 million. The amount of penalties recognized in the consolidated statements of operations for 2013 related to unrecognized tax benefits was a pre-tax expense of \$0.5 million.

The total amount of accrued liabilities for interest recognized in the consolidated balance sheets related to unrecognized tax benefits as of December 31, 2013 was \$5.8 million. The total amount of accrued liabilities for penalties recognized in the consolidated balance sheets related to unrecognized tax benefits as of December 31, 2013 was \$2.0 million. To the extent that uncertain matters are settled favorably, this amount could reverse and decrease our effective tax.

Within the next twelve months, it is reasonably possible that approximately \$6.8 million of uncertain tax positions may be released into income due to the expiration of state statute of limitations.

#### *Taxing Jurisdictions Audits*

There are no income tax returns under audit by the U.S. Internal Revenue Service with the years after 2010 remaining open and subject to audit. There are no income tax returns under audit by the Canadian Government with the years after 2010 remaining open and subject to audit. There are no income tax returns under audit by the U.K. government with the years after 2010 remaining open and subject to audit. The German government is currently performing a desk audit of the 2011 income tax return. Upon completion of the audit the government will allow for the dissolution of the German management company. At this time, we do not expect the results from any income tax audit to have a material impact on our financial statements. We do not believe that it is reasonably possible that the amount of unrecognized tax benefits will significantly change in 2014.

## **12. Stock Based Compensation**

### *Stock Options*

We account for stock options issued to employees using a fair value-based method under which we measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award. The resulting cost is recognized for the awards expected to vest over the period during which an employee is required to provide service in exchange for the award, usually the vesting period.

The fair value of stock options is estimated as of the date of grant using a Black-Scholes option pricing model. One of the inputs to this model is the estimate of the fair value of the underlying common stock on the date of grant. The other inputs include an estimate of the expected volatility of the stock price, an option's expected term, the risk-free interest rate over the option's expected term, the option's exercise price, and our expectations regarding dividends.

We do not have a history of market prices for our common stock because our stock is not publicly traded. We utilized the observable data for a group of peer companies to assist in developing our volatility assumption. Volatility estimates for the year ranged from 59.8% to 62.3%. We used the simplified method described in Staff Accounting Bulletin ("SAB") Topic 14 to estimate the expected term. Our options have a contractual term of 10 years and vest 20% on each of first five anniversaries of the option grant date. The expected term calculated under the simplified method is 6.5 years. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The risk-free rates on our option grant dates ranged from 1.3% to 2.3%. Based on current experience, we estimate a 10% forfeiture rate. The weighted average grant date fair value of options granted was \$199 per share in 2013.

A summary of our stock option activity and related information for the period January 9, 2013 to December 31, 2013 is presented below:

	Shares	Weighted Average Exercise Price	Remaining Contractual Term in Years
Outstanding, January 9, 2013	-		
Granted	118,318	\$ 138	
Forfeited	(11,976)	\$ 100	
Outstanding, December 31, 2013	<u>106,342</u>	\$ 142	9.5
Expected to vest December 31, 2013	<u>95,708</u>	\$ 142	9.5
Exercisable, December 31, 2013	<u>-</u>		

We recognized \$2.6 million in stock compensation expense for the period from January 9, 2013 to December 31, 2013.

No options were vested or exercised in 2013. Unrecognized compensation expense related to the unvested portion of our stock options was approximately \$15.8 million as of December 31, 2013, and is expected to be recognized over a weighted-average remaining term of approximately 4.5 years.

### 13. Commitments and Contingencies

#### *Leases for Operating Communities*

We have operating leases for 14 communities with terms ranging from 5 to 25 years. We have an additional eight leases related to entities we operate but do not own and one entity we operate in which we hold a 50% interest. These entities are consolidated due to control based on voting interests. We have two ground leases related to operating communities with lease terms ranging from 22 to 45 years. These leases are subject to annual increases based on the consumer price index and/or stated increases in the lease. In addition, we have one ground lease related to a development project.

Four leases are guaranteed by Marriott. In 2011, Marriott consented to the extension of the term of the four leases for a five-year term commencing January 1, 2014 and ending December 31, 2018. In return for its consent to the lease extension and its maintenance of a guarantee of our lease payments, Sunrise Inc. provided Marriott with a letter of credit (the "Letter of Credit") issued by KeyBank, NA ("KeyBank") with a face amount of \$85.0 million to secure Marriott's exposure under the guarantees. During the lease term, we, as successor entity, will be required to pay Marriott an annual payment in respect of the cash flow of the leased facilities, subject to a \$1 million annual minimum. Marriott may draw on the Letter of Credit in order to pay any obligations if not paid by us when due. Marriott has agreed to reduce the face amount of the Letter of Credit proportionally on a quarterly basis during the lease term as we pay our rental obligations.

We provided KeyBank with cash collateral of \$85.0 million as security for our Letter of Credit obligations. In May 2013 as a part of the KeyBank revolver (refer to Note 9), \$75.0 million of the \$85.0 million in restricted cash relating to the Marriott letter of credit became unrestricted.

In December 2013, Marriott consented to a second extension of the term of the four leases for an additional five-year term commencing January 1, 2019 and ending December 31, 2023. In return for its consent to the lease extension and its maintenance of a guarantee, we will need to provide Marriott with a letter of credit (the "Letter of Credit") with a face amount of \$87.6 million prior to December 1, 2016 to secure Marriott's exposure under the guarantees. We will be required to pay Marriott an annual payment in respect of the cash flow of the leased facilities, subject to a \$1 million annual minimum similar to the terms of the first extension.

Rent expense for communities subject to operating leases was \$71.8 million, for the period from January 9, 2013 to December 31, 2013, including contingent rent expense of \$4.6 million based on the net cash flow of certain of the leased properties.

#### *Leases for Office Space*

Rent expense for office space for 2013 was \$3.3 million. We lease our community support office and regional offices under various leases which expire September 2014. In December 2013, we signed a new lease for our community support office. The lease is expected to commence in April 2014 once the construction of the space is completed. The lease is for approximately seven years and four months and includes annual rent increases and the option to renew the lease for either five or seven years.

Future minimum lease payments under office, ground and other operating leases at December 31, 2013 are as follows (in thousands):

2014	\$	58,497
2015		60,990
2016		45,181
2017		45,419
2018		42,865
Thereafter		84,955
	\$	<u>337,907</u>

#### *Letters of Credit*

At December 31, 2013, we had \$5.1 million in letters of credit relating to operations, \$86.1 million relating to our insurance programs and \$85.0 million related to the Marriott lease guarantee discussed above. The insurance program letters of credit are fully cash collateralized and the operations and Marriott letters of credit are collateralized by the KeyBank Revolver and \$10.0 million cash collateral.

#### *Legal Proceedings*

##### *Subpoena From the U.S. Attorney's Office*

The U.S. Attorney's Office for the Eastern District of Pennsylvania has issued a subpoena to us for certain documents relating to resident care at one of our Pennsylvania communities. This community had experienced significant publicity due to an incident occurring in the spring of 2011. We cooperated with the U.S. Attorney's Office and produced the requested documents. There has been no claim made against Sunrise and Sunrise has not heard from the U.S. Attorney's Office in this matter since August 2012.

### *Other Pending Lawsuits and Claims*

#### *Consolidated California Wage-Hour Class Actions*

On February 25, 2013, Plaintiff Renee Tameifuna filed a lawsuit on behalf of herself and others similarly situated in the Superior Court of the State of California, Santa Clara County, against Sunrise Senior Living, Inc., Sunrise Senior Living Services, Inc., Sunrise Senior Living Management, Inc., and former Sunrise employee Charmaine Doherty, captioned Renee Tameifuna, individually, and on behalf of other members of the general public similarly situated, and as an aggrieved employee v. Sunrise Senior Living, Inc., Sunrise Senior Living Services, Inc., Sunrise Senior Living Management, Inc., Charmaine Doherty, an individual, and DOES 1 through 10, inclusive, Case No. 113-CV-241764. Plaintiff's complaint was styled as a class action and Private Attorneys General Act complaint and alleges that Sunrise failed to properly schedule the purported class of hourly employees so that they would be able to take meal and rest breaks as provided for under California law. The complaint asserted claims for: (1) failure to pay overtime wages; (2) failure to pay minimum wages; (3) failure to provide meal periods; (4) failure to provide rest periods; (5) failure to pay wages upon ending employment; (6) failure to provide accurate wage statements; (7) violation of the Private Attorneys General Act; and (8) unfair competition. Plaintiff seeks unspecified compensatory damages, statutory penalties provided for under the California Labor Code, injunctive relief, and costs and attorneys' fees. On March 18, 2013, Plaintiff Betelhem Shiferaw filed a lawsuit on behalf of herself and others similarly situated in the Superior Court of the State of California, Los Angeles County, against Sunrise Senior Living Management, Inc. and Sunrise employee Jason Malone, captioned Betelhem Shiferaw, an individual, on behalf of herself and all others similarly situated v. Sunrise Senior Living Management, Inc., Jason Malone, and DOES 1 through 100, inclusive, Case No. BC503102. Plaintiff's complaint was styled as a class action and Private Attorneys General Act complaint and alleged that Sunrise failed to provide meal and rest breaks as provided for under California law. The complaint asserted claims for: (1) failure to provide meal periods; (2) failure to provide rest periods; (3) failure to pay overtime wages; (4) failure to pay minimum wage; (5) failure to pay wages upon ending employment; (6) failure to maintain proper records; (7) failure to furnish accurate wage statements; (8) failure to indemnify employees for necessary expenditures; (9) unfair and unlawful business practices; and (10) violation of the Private Attorneys General Act. Plaintiff seeks unspecified compensatory damages, restitution, disgorgement, statutory penalties provided for under the California Labor Code, liquidated damages, injunctive relief, interest, costs and attorneys' fees and declaratory relief.

On March 26, 2013, Sunrise removed both cases to federal district court. Both cases were subsequently consolidated in the U.S. District Court for the Central District of California under case number 2:13-cv-02171-JAK-PLA. On October 21, 2013, Plaintiffs filed a consolidated complaint asserting causes of action for (1) failure to provide meal periods; (2) failure to provide rest periods; (3) failure to pay overtime wages; (4) failure to pay minimum wages; (5) failure to pay wages upon ending employment; (6) failure to provide accurate wage statements; (7) failure to maintain required records; (8) unfair competition and unlawful business practices; and (9) violation of the Private Attorneys General Act. On November 4, 2013, Sunrise filed its answer to the consolidated complaint. Class discovery is ongoing, and plaintiff's motion for class certification is expected to be briefed and argued by the end of April 2014. Sunrise believes that Plaintiffs' allegations are not meritorious and that a class action is not appropriate in this case, and intends to defend itself vigorously. Because of the early stage of this suit, we cannot at this time estimate an amount or range of potential loss in the event of an unfavorable outcome.

#### *RehabCare*

On September 25, 2012, RehabCare Group East, Inc. d/b/a RehabCare Group Therapy Services, Inc., (collectively along with its affiliates "RehabCare") filed an action in the Circuit Court for the County of Fairfax, Virginia, alleging breach of contract and unjust enrichment claims against Sunrise Senior Living Services, Inc. d/b/a/ Brighton Gardens of Bellaire, the Jefferson Senior Living, and Church Creek; and Sunrise Continuing Care LLC d/b/a Bedford Court, in the amount of \$1,958,605.80 plus interest, costs, expenses and fees. RehabCare's allegations arise out of Sunrise Senior Living Services, Inc.'s ("the Company") therapy services agreements ("Therapy Services Agreements") with RehabCare, under which RehabCare provided therapy services to residents of certain skilled nursing facilities operated by the Company. The Complaint was served on the Company on October 12, 2012. On November 30, 2012, the Company filed its Answer, Affirmative Defense and Counterclaims to RehabCare's Complaint and a motion to stay the proceedings. The Court denied Sunrise's motion to stay and scheduled trial to begin on September 18, 2013. On January 10, 2013, RehabCare filed a Demurrer to certain of Sunrise's counterclaims, to which Sunrise responded. On May 31, 2013, the parties settled the matter with no incremental cost to us.

The Company could also be subject to potential claims by the government to recover overpayments arising out of therapy services provided by RehabCare under certain therapy services agreements. The Company is investigating whether additional amounts are due to the government. Repayments of amounts paid to the Company for skilled nursing services at five facilities served by RehabCare have already been made and further repayments likely will be identified. These potential repayment obligations and the above referenced lawsuit all arise from the same conduct.

### *Shareholder Litigation*

On September 6, 2012, a complaint, captioned Perricone Family Trust, on behalf of itself and all others similarly situated vs. Sunrise Senior Living, Inc., Health Care REIT, Inc., Paul J. Klaassen, Glyn F. Aeppel, Thomas J. Donohue, Stephen D. Harlan, Lynn Krominga, William G. Little and Mark S. Ordan, Case No. 7837, was filed in the Court of Chancery for the State of Delaware, challenging the proposed Merger of Sunrise with Health Care REIT. The complaint challenges the proposed Merger on behalf of a putative class of Sunrise public stockholders, and names as defendants Sunrise, its directors and HCN. The complaint generally alleges that the individual defendants breached their fiduciary duties in connection with the proposed Merger and that the entity defendants aided and abetted that breach. The complaint seeks, among other things, injunctive relief against the Merger and an award of plaintiffs' expenses.

In addition, on October 15, 2012, a complaint captioned John Price vs. Mark Ordan, Glyn Aeppel, Thomas Donohue, Stephen Harlan, Paul Klaassen, Lynn Krominga, William Little, Sunrise Senior Living, Inc., Health Care REIT, Inc., Brewer Holdco, Inc. and Red Fox Inc., Case No. 1-12ev 1150 LO/JFA, was filed in the United States District Court for the Eastern District of Virginia, also challenging the proposed Merger of Sunrise with Health Care REIT. The complaint challenges the proposed Merger on behalf of a putative class of Sunrise public stockholders, and names as defendants Sunrise, its directors, HCN and their respective subsidiaries party to the proposed Merger. The complaint generally alleges that the individual defendants breached their fiduciary duties in connection with the proposed Merger and violated Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder by omitting material facts from Sunrise's proxy statement and that the entity defendants aided and abetted such breaches. The complaint seeks, among other things, injunctive relief against the merger and an award of plaintiffs' expenses.

On December 5, 2012, the parties to these lawsuits entered into a Memorandum of Understanding settling the claims in principle. Following additional confirmatory discovery, the parties entered into a Stipulation of Settlement on October 24, 2013, which the parties presented to the court for preliminary approval on November 1, 2013. On January 24, 2014, the Court held a fairness hearing and entered the Order and Final Judgment, finding, *inter alia*, the settlement to be fair and reasonable and dismissing the action with prejudice.

### *Claim of Event of Default By Ventas, Inc.*

On January 13, 2014, Ventas sent a letter to Sunrise in which it asserted that HCN's investment in Sunrise violated Section 2.3 of the Master Agreement between the parties and thus an Event of Default had occurred that gave Ventas the right to terminate any or all of the 79 management agreements between Sunrise and Ventas. In that letter, Ventas also asserted that it had the right to terminate the management agreement for the Sunrise of Pacific Palisades facility pursuant to an economic performance test set forth in the Master Agreement. On January 15, 2014, Sunrise responded in writing to Ventas and denied that there had been an Event of Default that gave Ventas the right to terminate the management agreements between the parties. Sunrise believes that Ventas' claim has no merit and intends to defend itself vigorously if a claim is asserted.

### *Ohio AG Investigation*

On January 10, 2014, Sunrise received a letter from the Office of the Attorney General for the State of Ohio, Antitrust Section, indicating its intent to file a complaint against Sunrise in federal district court on or after January 24, 2014, seeking civil forfeitures, injunctive and other equitable relief and treble damages related to alleged antitrust violations in the State of Ohio. The Ohio AG Antitrust Section had issued three Civil Investigative Demands to Sunrise seeking information in connection with its investigation of potential antitrust violations in the provision of assisted living and related services to Ohio senior citizens. The Ohio AG has indicated its willingness to discuss a possible resolution prior to the commencement of litigation. Sunrise believes the allegations are not meritorious and is in communication with the Ohio AG's office to discuss the matter.

In addition to the matters described above, we are involved in various lawsuits and claims and regulatory and other governmental audits and investigations arising in the normal course of business. In the opinion of management, although the outcomes of these other suits and claims are uncertain, in the aggregate they are not expected to have a material adverse effect on our business, financial condition, and results of operations.

#### 14. Related-Party Transactions

##### *Health Care REIT, Inc.*

HCN has an approximate 20 percent indirect ownership interest in Red Fox. We manage 120 communities owned by HCN under management agreements with initial terms of 5 to 15 years and five venture communities where HCN is a venture partner. Management fees earned from the wholly owned HCN communities were \$35.2 million for the period from January 9, 2013 to December 31, 2013. In addition, we have entered into an Accounting and Tax Services Agreement with HCN under which we provide certain accounting and tax services for communities and entities owned by HCN. Fees received under the Accounting and Tax Services Agreement were \$1.7 million for the period from January 9, 2013 to December 31, 2013. Reimbursed costs incurred on behalf of managed HCN communities were \$225.9 million for the period from January 9, 2013 to December 31, 2013. Also, included in costs incurred on behalf of managed HCN communities were \$2.6 million of centrally administered services expense and self-insured costs that were not charged out to the HCN communities and absorbed by us.

Amounts due from affiliates, current of \$13.4 million represents amounts due from HCN and the communities we manage for them for management fees, payroll, insurance and other operating costs that are to be reimbursed to us, generally within 30 days. Amounts due to affiliates of \$0.8 million is primarily net tax refunds due to HCN related to certain indemnifications agreed to as part of Red Fox's purchase of Sunrise LLC from HCN (as discussed in Note 3). Amounts due from affiliates, long term, represents an indemnification receivable from HCN related to our uncertain tax positions (as discussed in Note 3).

During 2013, we consolidated the operations of eight New York entities owned by HCN. These entities were consolidated due to control and we recognized noncontrolling interests equal to their net income or loss, excluding management fees paid to us. Due to licensing regulations, public companies cannot hold an assisted living license in the state of New York. In order to satisfy the license holder requirements, Virginia non-stock corporations ("GWCs") were created and are licensed to operate each of the New York communities that we manage for HCN. Each GWC entity is managed by a board of directors with us electing two of the three members and HCN electing the third member. During 2013, we deconsolidated two of HCN's GWC entities due a change in the composition of the board of directors whereby we no longer held the majority of members.

#### 15. Accounts Payable and Accrued Expenses and Other Long-Term Liabilities

Accounts payable and accrued expenses consist of the following (in thousands):

	December 31, 2013
Accounts payable and accrued expenses	\$ 17,875
Accrued salaries and bonuses	36,534
Accrued employee health and other benefits	30,531
Other accrued expenses	20,072
	<u>\$ 105,012</u>

Other long-term liabilities consist of the following (in thousands):

	December 31, 2013
Uncertain tax position	\$ 17,906
Lease liabilities, including above market lease liability	14,019
Deferred revenue from nonrefundable entrance fees	25,944
Executive deferred compensation	3,178
Other long-term liabilities	2,571
	<u>\$ 63,618</u>



## 16. 401K Plan

We have a 401(k) Plan ("the Plan") covering all eligible employees. Under the Plan, eligible employees may make pre-tax contributions up to 100% of the IRS limits. The Plan provides an employer match dependent upon compensation levels and years of service. The Plan does not provide for discretionary matching contributions. Matching contributions were \$1.7 million in 2013.

## 17. Discontinued Operations

Discontinued operations consist of a VIE entity sold in November 2013 (see Note 7). The following amounts related to the entity have been segregated from continuing operations and reported as discontinued operations (in thousands):

	Year Ended December 31, 2013
Revenue	\$ 11,628
Operating expenses	(11,406)
Loss on financial guarantee	(7,309)
Other expense	(975)
Income taxes	-
Loss from discontinued operations	<u>\$ (8,062)</u>

## 18. Supplemental Consolidating Financial Information

The following financial information sets forth our consolidating financial position as of December 31, 2013 and the results of operations, comprehensive income, equity and cash flow for the period from January 9, 2013 to December 31, 2013.

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
SUPPLEMENTAL CONSOLIDATING BALANCE SHEET**

	December 31, 2013			
(In thousands)	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 489	\$ 34,214	-	\$ 34,703
Accounts receivable, net	-	33,893	-	33,893
Notes receivable	-	553	-	553
Due from affiliates	-	13,921	(481)	13,440
Deferred income taxes, net	-	10,537	-	10,537
Restricted cash	-	46,307	-	46,307
Prepaid insurance	-	2,476	-	2,476
Prepaid expenses and other current assets	-	9,669	-	9,669
Total current assets	489	151,570	(481)	151,578
Property and equipment, net	-	97,437	-	97,437
Notes receivable	-	4,247	-	4,247
Intangible assets, net	-	101,703	-	101,703
Restricted cash	-	76,741	-	76,741
Restricted investments in marketable securities	-	3,347	-	3,347
Due from affiliates (see Note 14)	-	17,906	-	17,906
Investment in subsidiary	166,816	-	(166,816)	-
Other assets, net	-	10,937	-	10,937
Total assets	\$ 167,305	\$ 463,888	\$ (167,297)	\$ 463,896
<b>LIABILITIES AND EQUITY</b>				
Current Liabilities:				
Accounts payable and accrued expenses	\$ -	\$ 105,012	-	\$ 105,012
Due to affiliates	481	836	(481)	836
Deferred revenue	-	7,171	-	7,171
Entrance fees	-	12,856	-	12,856
Self-insurance liabilities	-	44,540	-	44,540
Total current liabilities	481	170,415	(481)	170,415
Self-insurance liabilities	-	42,212	-	42,212
Deferred income tax liabilities	-	12,602	-	12,602
Other long-term liabilities, net	-	63,618	-	63,618
Total liabilities	481	288,847	(481)	288,847
Equity:				
Members' equity	164,651	167,220	(164,643)	167,228
Accumulated other comprehensive loss	-	(404)	-	(404)
Share of subsidiary's other equity and accumulated other comprehensive loss	2,173	-	(2,173)	-
Total members' equity	166,824	166,816	(166,816)	166,824
Noncontrolling interests	-	8,225	-	8,225
Total equity	166,824	175,041	(166,816)	175,049
Total liabilities and equity	\$ 167,305	\$ 463,888	\$ (167,297)	\$ 463,896

See accompanying notes

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS**

(In thousands)	For the period January 9, 2013 (inception) to December 31, 2013			
	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
Operating revenue:				
Management fees (see Note 14)	\$ -	\$ 106,157	\$ -	\$ 106,157
Resident fees for consolidated communities	-	275,492	-	275,492
Ancillary fees	-	7,818	-	7,818
Professional fees from development, marketing and other	-	2,012	-	2,012
Reimbursed costs incurred on behalf of managed communities (see Note 14)	-	778,071	-	778,071
Total operating revenue	-	1,169,550	-	1,169,550
Operating expenses:				
Community expense for consolidated communities	-	188,141	-	188,141
Community lease expense	-	71,231	-	71,231
Depreciation and amortization	-	19,127	-	19,127
Ancillary expenses	-	7,263	-	7,263
General and administrative	-	84,024	-	84,024
Transition costs	-	9,321	-	9,321
Transaction costs	8,324	-	-	8,324
Stock compensation expense	-	2,577	-	2,577
Provision for doubtful accounts	-	1,087	-	1,087
Costs incurred on behalf of managed communities	-	787,617	-	787,617
Carrying costs of idle land	-	2,089	-	2,089
Total operating expenses	8,324	1,172,477	-	1,180,801
Loss from operations	(8,324)	(2,927)	-	(11,251)
Other non-operating income (expense):				
Interest income, including income on release of restricted cash	5	18,639	-	18,644
Interest expense	-	(2,644)	-	(2,644)
Other expense	-	(1,088)	-	(1,088)
Total other non-operating income (loss)	5	14,907	-	14,912
Bargain purchase gain	183,211	-	-	183,211
Equity in earnings of subsidiary	6,998	-	(6,998)	-
Income before benefit from income taxes and discontinued operations	181,890	11,980	(6,998)	186,872
Benefit from income taxes	-	1,899	-	1,899
Net income before discontinued operations	181,890	13,879	(6,998)	188,771
Discontinued operations, net of tax	-	(8,062)	-	(8,062)
Net income	181,890	5,817	(6,998)	180,709
Less: Loss attributable to noncontrolling interests, net of tax	-	1,181	-	1,181
Net income attributable to members	\$ 181,890	\$ 6,998	\$ (6,998)	\$ 181,890

See accompanying notes

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
SUPPLEMENTAL CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME**

	For the period January 9, 2013 (inception) to December 31, 2013			
	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
(In thousands)				
Net income	\$ 181,890	\$ 5,817	\$ (6,998)	\$ 180,709
Other comprehensive income (loss)				
Foreign currency translation adjustments	-	(943)	-	(943)
Unrealized gain on investments	-	539	-	539
Share of subsidiary's other comprehensive loss	(404)	-	404	-
Comprehensive income	181,486	5,413	(6,594)	180,305
Less: Comprehensive loss attributable to noncontrolling interests	-	642	-	642
Comprehensive income attributable to members	<u>\$ 181,486</u>	<u>\$ 6,055</u>	<u>\$ (6,594)</u>	<u>\$ 180,947</u>

See accompanying notes

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING LLC  
SUPPLEMENTAL CONSOLIDATING STATEMENT OF MEMBERS' EQUITY**

(In thousands)	<b>Red Fox Holding Corporation</b>	<b>Sunrise Senior Living, LLC</b>	<b>Noncontrolling Interests</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Balance at January 9, 2013 (inception)	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of membership units	75,694	247,645	-	(247,645)	75,694
Distributions to members	(92,933)	(90,000)	-	90,000	(92,933)
Stock option expense	-	2,577	-	-	2,577
Initial fair value of noncontrolling interests	-	-	9,172	-	9,172
Deconsolidation of controlled entities	-	-	793	-	793
Net income (loss)	181,890	6,998	(1,181)	(6,998)	180,709
Distributions to noncontrolling interests	-	-	(559)	-	(559)
Foreign currency translation loss	-	(943)	-	-	(943)
Unrealized gain on investments	-	539	-	-	539
Share of subsidiary's other equity and accumulated other comprehensive loss	2,173	-	-	(2,173)	-
Balance at December 31, 2013	<u>\$ 166,824</u>	<u>\$ 166,816</u>	<u>\$ 8,225</u>	<u>\$ (166,816)</u>	<u>\$ 175,049</u>

See accompanying notes

**RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY  
SUNRISE SENIOR LIVING, LLC  
SUPPLEMENTAL CONSOLIDATING STATEMENT OF CASH FLOW**

	For the period January 9, 2013 (inception) to December 31, 2013			
	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
(In thousands)				
<b>Operating activities</b>				
Net income	\$ 181,890	\$ 5,817	\$ (6,998)	\$ 180,709
Less: net loss from discontinued operations	-	8,062	-	8,062
Adjustments to reconcile net income to net cash provided by operating activities:				
Bargain purchase gain	(183,211)	-	-	(183,211)
Interest income on release of restricted cash	-	(17,972)	-	(17,972)
Equity in earnings of subsidiary	(6,998)	-	6,998	-
Depreciation and amortization	-	19,127	-	19,127
Provision for doubtful accounts	-	1,087	-	1,087
Loss from deferred income taxes	-	(187)	-	(187)
Amortization of deferred financing costs	-	408	-	408
Amortization of leases, including above and below market lease asset and liability	-	5,703	-	5,703
Stock-based compensation	-	2,577	-	2,577
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	-	8,885	-	8,885
Due from/due to affiliate	481	2,863	(481)	2,863
Prepaid expenses and other current assets	-	1,867	-	1,867
Captive insurance restricted cash	-	4,512	-	4,512
Other assets	-	(414)	-	(414)
Increase (decrease) in:				
Accounts payable, accrued expenses and other liabilities	-	(4,811)	-	(4,811)
Entrance fees	-	(4,517)	-	(4,517)
Self-insurance liabilities	-	2,101	-	2,101
Deferred revenue	-	3,187	-	3,187
Net cash provided by discontinued operations	-	532	-	532
Net cash provided by operating activities	(7,838)	38,827	(481)	30,508
<b>Investing activities</b>				
Acquisition of Sunrise Senior Living, LLC, net of cash acquired	(63,953)	17,450	-	(46,503)
Distributions from investments	90,000	-	(90,000)	-
Capital expenditures	-	(13,206)	-	(13,206)
Change in restricted cash	-	91,391	-	91,391
Payments from notes receivable	-	567	-	567
Net cash provided by discontinued operations	-	12,317	-	12,317
Net cash provided by investing activities	26,047	108,519	(90,000)	44,566
<b>Financing activities</b>				
Borrowings on credit facility	-	5,000	-	5,000
Repayments of credit facility	-	(5,000)	-	(5,000)
Issuance of membership units	75,213	-	481	75,694
Distributions to members	(92,933)	(90,000)	90,000	(92,933)
Distributions to noncontrolling interests	-	(559)	-	(559)
Financing costs paid	-	(1,978)	-	(1,978)
Net cash used in discontinued operations	-	(20,595)	-	(20,595)
Net cash used in financing activities	(17,720)	(113,132)	90,481	(40,371)
Net increase in cash and cash equivalents	489	34,214	-	34,703
Cash and cash equivalents at beginning of period	-	-	-	-
Cash and cash equivalents at end of period	\$ 489	\$ 34,214	\$ -	\$ 34,703
<b>Supplemental Disclosure of Noncash Information:</b>				
Accrued capital expenditures	\$ -	\$ 1,298	\$ -	\$ 1,298

See accompanying notes

## 19. Subsequent Events

Subsequent events have been evaluated through March 11, 2014.

We entered into a Purchase and Sale Agreement ("RHA PSA") on November 4, 2013 with RHA Assisted Living of Buckhead, Inc. ("RHA"), a non-for-profit that owns and operates Sunrise of Buckhead ("Buckhead"), a senior living community managed by us. The terms of the RHA PSA include our right to market Buckhead for sale to a third-party buyer and assign our rights under the RHA PSA to such third-party buyer. In addition to managing the community, we are obligated to provide loans to RHA to fund its operating deficits and debt service. At December 31, 2013, RHA owed us approximately \$9.8 million which is not reflected as a receivable on our balance sheet. We expect to record a gain for this payment upon closing. On February 11, 2014, we and an affiliate of HCN ("Buyer") entered into a Purchase and Sale Agreement ("HCN PSA") for the Buyer to purchase, acquire and assume our rights and obligations under the RHA PSA for a purchase price of \$22.5 million. Sale proceeds will be used to repay outstanding debt of approximately \$12.5 million and the full repayment of amounts owed to us. The transaction is expected to close in March 2014.

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**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly service fees at beginning of reporting period: (Indicate range, if applicable)	\$2,495 to \$5,020		
[2] Indicate percentage of increase in fees imposed during reporting period: (Indicate range, if applicable)	1.8% - 2.5%	0.00%	0.00%

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and the community.)

[3] Indicate the date the fee increase was implemented: 1/1/2013

[4] Check each of the appropriate boxes:

☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

☒ The governing body of the provider, or the designated representative of the provider posted notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Sunrise Carlisle, LP

COMMUNITY: The Carlisle

**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**

**[5]** On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

Monthly service fees increased from \$2,434 to \$2,495 or 2.5%. Monthly service fees increased from \$4,929 to \$5,020 or 1.8%. An increase in monthly service fees was driven by an increase in operational costs.

**PROVIDER:** Sunrise Carlisle, LP

**COMMUNITY:** The Carlisle

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**Continuing Care Retirement Community  
Disclosure Statement  
General Information**

**RECEIVED**  
Date Prepared: 4/30/14  
**MAY 01 2014**

FACILITY NAME: The Carlisle  
ADDRESS: 1450 Post Street, San Francisco, CA ZIP CODE: 94109 PHONE: 415-870-0200  
PROVIDER NAME: Sunrise Carlisle, LP FACILITY OPERATOR: Sunrise Senior Living Management, LLC  
RELATED FACILITIES: \_\_\_\_\_ RELIGIOUS AFFILIATION: None  
YEAR OPENED: 1992 # OF ACRES: 1.4 ☐ SINGLE STORY ☒ MULTI-STORY ☐ OTHER: \_\_\_\_\_ MILES TO SHOPPING CTR: 1  
MILES TO HOSPITAL: 1

<b>NUMBER OF UNITS:</b>	<b>RESIDENTIAL LIVING</b>	<b>HEALTH CARE</b>
	APARTMENTS — STUDIO: <u>28</u>	ASSISTED LIVING: _____
	APARTMENTS — 1 BDRM: <u>56</u>	SKILLED NURSING: _____
	APARTMENTS — 2 BDRM: <u>8</u>	SPECIAL CARE: _____
	COTTAGES/HOUSES: _____	DESCRIBE SPECIAL CARE: _____
	RLU OCCUPANCY (%) AT YEAR END: <u>99%</u>	

TYPE OF OWNERSHIP: ☐ NOT-FOR-PROFIT ☒ FOR-PROFIT ACCREDITED?: ☒ YES ☐ NO BY: DSS

FORM OF CONTRACT: ☒ CONTINUING CARE ☐ LIFE CARE ☐ ENTRANCE FEE ☐ FEE FOR SERVICE  
(Check all that apply) ☐ ASSIGNMENT OF ASSETS ☒ EQUITY ☐ MEMBERSHIP ☐ RENTAL

REFUND PROVISIONS: (Check all that apply) ☐ 90% ☐ 75% ☐ 50% ☐ PRORATED TO 0% ☒ OTHER: Unit Resale

RANGE OF ENTRANCE FEES: \$ 140,000 TO \$ 910,000 LONG-TERM CARE INSURANCE REQUIRED? ☐ YES ☒ NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Wellness Center Open Clinic for vital signs

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: Health & Financial

RESIDENT REPRESENTATIVE ON THE BOARD (briefly describe their involvement): see attached

FACILITY SERVICES AND AMENITIES					
COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING ( <u>4</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	MEALS ( <u>2</u> /DAY)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WEILLNESS CLINIC	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER <u>Assisted Living</u>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
OTHER <u>Dining Room, Winery</u>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

THE CARLISLE  
RESIDENT REPRESENTATION

The COA holders at The Carlisle are Sunrise Carlisle GP, LLC (as general partner of Sunrise Carlisle, LP, the owner of the easements) and Sunrise Senior Living, LLC (SSLLC) (the ultimate owner of Sunrise Carlisle, LP and of Sunrise Carlisle GP, LLC). SSLLC is itself subject to ultimate ownership by Public Sector Pension Investment Board, a Canadian crown corporation, and Health Care REIT, Inc., a publicly traded corporation. Given this structure, there is no governing body as such that controls The Carlisle on which a resident representative might serve. Decisions are made by the regional and local managers employed by Sunrise Senior Living Management, Inc. (SSLMI), also as subsidiary of SSLLC. Accordingly, a resident representative can best provide input into decisions by meeting periodically with the regional and local managers responsible for The Carlisle. With this in mind, the Sunrise Senior Living Regional Director of Operations for the Western Region and the Executive Director of The Carlisle are meeting a semi-annual basis with a resident representative selected by the Board of The Carlisle of San Francisco Homeowners' Association in order to obtain input on relevant matters such as economic performance, building and plant issues, and general resident service questions.

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PROVIDER NAME: Sunrise Carlisle, LP

	2010	2011	2012	2013
<b>INCOME FROM ONGOING OPERATIONS</b>				
OPERATING INCOME (excluding amortization of entrance fee income)	<u>\$ 4,329,494</u>	<u>\$ 4,763,510</u>	<u>\$ 4,931,510</u>	<u>\$ 5,164,539</u>
LESS OPERATING EXPENSES (excluding depreciation, amortization & interest)	<u>\$ 5,661,420</u>	<u>\$ 5,067,868</u>	<u>\$ 5,039,277</u>	<u>\$ 5,156,572</u>
<b>NET INCOME FROM OPERATIONS</b>	<u><u>\$ (1,331,926)</u></u>	<u><u>\$ (304,358)</u></u>	<u><u>\$ (107,767)</u></u>	<u><u>\$ 7,967</u></u>
LESS INTEREST EXPENSE	<u>\$ (21,649)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
PLUS CONTRIBUTIONS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	<u>\$ (170,946)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	<u><u>\$ (1,524,521)</u></u>	<u><u>\$ (304,358)</u></u>	<u><u>\$ (107,767)</u></u>	<u><u>\$ 7,967</u></u>
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits less Refunds)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD	AMORTIZATION PERIOD

PROVIDER NAME: Sunrise Carlisle, LP

**FINANCIAL RATIOS**

	2010 CCAC Medians 50th percentile (optional)	2011	2012	2013
Debt to Asset ratio		0.00%	0.00%	0.00%
Operating Ratio		106.39%	102.19%	99.85%
Debt Servicing Coverage Ratio		0.00%	0.00%	0.00%
Days Cash on Hand ratio		0	0	0

**HISTORICAL MONTHLY SERVICE FEES  
AVERAGE FEE AND PERCENT CHANGE**

	2010	%	2011	%	2012	%	2013
STUDIO	\$ 3,030	2.5%	\$ 3,106	0.3%	\$ 3,114	2.5%	\$ 3,192
ONE BEDROOM	\$ 3,399	13.8%	\$ 3,867	0.1%	\$ 3,872	3.1%	\$ 3,993
TWO BEDROOM	\$ 4,263	10.6%	\$ 4,716	0.0%	\$ 4,716	2.2%	\$ 4,822
COTTAGE/HOUSE							
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

COMMENTS FROM PROVIDER: \_\_\_\_\_

PROVIDER NAME: Sunrise Carlisle, LP

### Financial Ratio Formulas

#### LONG TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long term debt less Current Portion}}{\text{Total Assets}} = 0.00\%$$

Long term debt, less current maturities	\$	-
Total Assets	\$	4,804,433

#### OPERATING RATIO

$$\frac{\text{Total Operating Expenses - Depreciation Expense - Amortization Expense}}{\text{Total Operating Revenues - Amortization of Deferred Entrance Fees}} = 99.85\%$$

Total Operating Expenses	\$	5,372,273
Depreciation Expense		21,735
Amortization Expense		193,966
Total Operating Revenues	\$	5,164,539
Amortization of Deferred Entrance Fees	\$	-

#### DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses + Interest, Depreciation and Amortization Expense - Amortization of Deferred Revenue + Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}} = 0.00\%$$

Excess of Revenues over Expenses	\$	(207,734)
Interest Expense	\$	-
Depreciation Expense	\$	21,735
Amortization Expense	\$	193,966
Amortization of Deferred Revenue	\$	-
Net Proceeds from Entrance Fees	\$	-
Annual Debt Service	\$	-

#### DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash \& Investments + Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses - Depreciation - Amortization})/365} = 0$$

Unrestricted Current Cash and Investments	\$	-
Unrestricted Non-Current Cash and Investments		
Operating Expenses	\$	5,372,273
Depreciation & Amortization Expense	\$	215,701

# KEY INDICATORS REPORT

Sunrise Carlisle, LP

Date Prepared: 4/30/14

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators

Chief Financial Officer Signature

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MAY 01 2014

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Trend Indicator
OPERATIONAL STATISTICS																		
1. Average Annual Occupancy by Site (%)	75%	86%	91%	96%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	N/A
MARGIN PROFITABILITY INDICATORS																		
2. Net Operating Margin (%)	-8.36%	-2.90%	1.72%	2.51%	3.11%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	↑
3. Net Operating Margin - Adjusted (%)	-8.36%	-2.90%	1.72%	2.51%	3.11%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	6.39%	↓
LIQUIDITY INDICATORS																		
4. Unrestricted Cash and Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	↑
5. Days Cash on Hand (Unrestricted)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	↑
CAPITAL STRUCTURE INDICATORS																		
6. Deferred Revenue from Entrance Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
7. Net Annual E/F Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
8. Unrestricted Net Assets	\$ 9,922,644	\$ 6,435,485	\$ 6,252,360	\$ 5,001,456	\$ 4,804,433	\$ 4,586,767	\$ 4,398,801	\$ 4,210,835	\$ 4,022,869	\$ 3,834,903	\$ 3,646,937	\$ 3,458,971	\$ 3,270,005	\$ 3,082,039	\$ 2,894,073	\$ 2,706,107	\$ 2,518,141	N/A
9. Annual Capital Asset Expenditures	\$ 51,153	\$ 5,323	\$ 128,055	\$ -	\$ 12,743	\$ 12,500	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	N/A
10. Annual Debt Service Coverage - Revenue Basis (x)	-12.84	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	↑
11. Annual Debt Service Coverage (x)	-14.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	↑
12. Annual Debt Service/Revenue (%)	4.13%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	↓
13. Average Annual Effective Interest Rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	↓
14. Unrestricted Cash & Investments/Long Term Debt (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	↑
15. Average Age of Facility (years)	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	↓